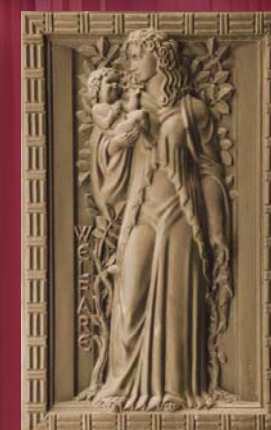
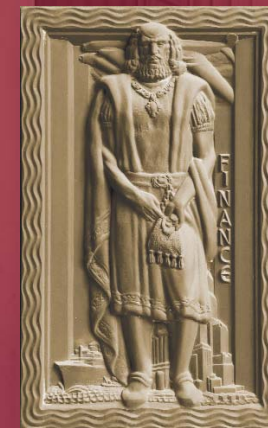


TENNESSEE

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2010



Tennessee Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2010

BILL HASLAM, Governor



DEPARTMENT OF AUDIT
JUSTIN P. WILSON, Comptroller of the Treasury
Division of State Audit
ARTHUR A. HAYES, JR., Director

DEPARTMENT OF FINANCE AND ADMINISTRATION
MARK EMKES, Commissioner
Division of Accounts
JAN I. SYLVIS, CHIEF OF ACCOUNTS

**STATE OF TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2010**

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INTRODUCTORY SECTION

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**STATE OF TENNESSEE
DEPARTMENT OF FINANCE AND ADMINISTRATION
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0285**

**MARK A. EMKES
COMMISSIONER**

March 29, 2011

To the Honorable Bill Haslam, Governor of the State of Tennessee, Members of the Legislature, and Citizens of the State of Tennessee.

Tennessee Code Annotated 4-3-1007 requires the Department of Finance and Administration to maintain a system of general accounts embracing all the financial transactions of state government. As a part of the carrying out of this responsibility, I am pleased to submit the Comprehensive Annual Financial Report of the State of Tennessee for the fiscal year ended June 30, 2010.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

State statutes require an annual audit of all financial statements of the state. The Office of the Comptroller of the Treasury, Division of State Audit, has issued an unqualified ("clean") opinion on the State of Tennessee's financial statements for the year ended June 30, 2010. The independent auditor's report is located at the front of the financial section of this report.

As part of the audit of these financial statements, the Division of State Audit conducted an organization-wide audit as described in the Single Audit Act of 1984, as amended, and Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. The audit included tests of compliance with applicable federal laws and regulations, as well as, a study and evaluation of internal controls, including internal accounting and administrative controls used in administering federal financial assistance programs. The results of this single audit are published under separate cover by the Division of State Audit.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The State of Tennessee was admitted to the union in 1796, as the sixteenth state. Tennessee has 42,146 square miles and a population estimated to be 6.3 million. The state has three branches of government, Executive, Legislative and Judicial. The Governor, who appoints commissioners to lead the various departments, heads the Executive branch. The Legislative branch is bicameral, with 99 members of the House of Representatives and 33 Senators. The Representatives serve two-year terms. The Senators serve four-year terms, with about one half being elected every two years. The Judicial branch rules on the constitutionality of laws enacted by the Legislature and the legality of administrative policies and regulations of the Executive branch.

The State of Tennessee provides a full range of services including education, health and social services, transportation, law, correction, safety, resources, regulation, and business and economic development. Its financial reporting entity includes all the funds of the primary government as well as all its component units. Component units are legally separate entities for which the primary government is financially accountable. The determination of "financial accountability" is based on criteria established in Governmental Accounting Standards Board Statement No. 14. Note 1.A to the financial statements explains more fully which organizations are included in the reporting entity.

State legislation requires the Governor to present his proposed budget to the General Assembly at the beginning of each annual session. Annual budgets are adopted for the general fund, special revenue funds (except Fraud and Economic Crime and the Dairy Promotion Board), and debt service fund. The General Assembly enacts the budget through passage of specific departmental appropriations, the sum of which may not exceed estimated revenues. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the state's financial plan for the coming year.

Budgetary control is maintained at the department level. Budget revisions during the year, reflecting program changes or interdepartmental transfers of an administrative nature, may be affected with certain executive and legislative branch approval. Only the legislature, however, may transfer appropriations between departments.

Local economy

Situated in the eastern south-central United States, Tennessee is within a day's drive from 75 percent of the major markets that represent 50 percent of the entire United States population. Its central location, along with a strong transportation infrastructure (including 1,062 miles/1,609 km of navigable waterways), makes it a strategic choice for business. In the last four years more than fifty new corporate headquarters have decided to call Tennessee home. With over a 41 percent land base in farmland (nationally, Tennessee ranks 8th in the number of farms), Tennessee's business community is diverse, representing a wide range of companies in manufacturing, technology, back office, and agriculture. In all, Tennessee is home to nine Fortune 500 companies, and seven hundred thirty four foreign-owned subsidiaries representing thirty six countries. Tennessee offers one of the lowest per capita tax burdens in the nation and consistently ranks among the top ten states for business climate.

While the "Great Recession" technically ended in June 2009, and the economy is finally moving in the right direction, the slow pace of expansion for the nation translates into slow growth for the Tennessee economy as well. Most measures of economic activity, including employment and taxable sales, remain well below their pre-recession peaks. Still, as Tennessee entered 2010, the state saw modest and preliminary indications of an economy that was on the mend. Tennessee's seasonally-adjusted unemployment rate peaked at 10.9 percent in June, July, and August of 2009, and with some backward movement along the way, the state's unemployment rate has edged down since then, reaching a 9.4 percent low in late 2010. In addition, while revenue levels are still below collections from fiscal year 2008, Tennessee, much like the southeast and the nation, saw promising tax revenue collections in the second half of 2010.

The recession is expected to have long-term effects on both national and state labor markets. Between December 2007 and November 2010, the nation lost 7.4 million jobs reflecting 5.4 percent of total employment. Only two states posted employment gains over this period, while Tennessee endured losses of 6.6 percent. In 2000, just before the onset of the 2001 recession, the state unemployment rate was only 4 percent; in 2007, unemployment in the U.S. and Tennessee was under 5 percent. Following the start of the recession in December 2007, unemployment increased to great heights. In 2010, Tennessee's unemployment rate averaged 10 percent which was higher than the national average of 9.6 percent, but compares favorably to most states in the southeast region. Looking forward, the annual unemployment rate in both the U.S. and Tennessee is expected to slowly decline but remain elevated throughout the decade. Overall nonfarm employment in Tennessee is expected to grow at 1.3 percent compound annual growth rate between 2010 and 2020. Sectors expected to grow the fastest are professional and business services, natural resources, mining and construction, and education and health services. Job creation remains a top priority of the state, with strategies tailored to the unique assets of each region of the state and a heavy focus on rural job creation.

Over the next ten years, inflation adjusted state gross domestic product is projected to grow at a 2.8 percent compound annual growth rate, slightly below the rate of growth for the output of the nation, but well above the historical record between 2000 and 2010. Likewise, nominal personal and per capita incomes in Tennessee are expected to grow over the next decade at rates near those for the nation (4.9 and 4.1 percent, respectively).

The tepid economic growth that is finally emerging in Tennessee is building on the longest and deepest economic downturn in modern history. Unlike most recessions, the “Great Recession” that began in 2007 and ended in 2009 will continue to have a significant impact on economic performance for many years to come. The decade ahead will represent a period of significant adjustment and restructuring for both the state and national economies. Economists believe the near-term outlook for the state to be largely positive, but expect relatively modest rates of expansion compared to recovery from other historic recessions. Nonfarm employment is expected to advance 1.3 percent in 2011, the first annual gain since 2007; and, after averaging 10 percent in 2010, the unemployment rate is expected to drop to 9.1 percent in 2011 and to 8.8 percent in 2012. This slow but steady improvement in economic conditions should help support improvement in taxable sales activity.

Long-term financial planning

The state has a careful multi-year budget planning process that is designed to preserve core services to the people of Tennessee. The recession has caused the state’s revenue base to be reduced. The budget planning process has addressed the effect through a combination of program reductions and the use of reserves. Recurring base budget reduction plans in general fund programs throughout state government are being implemented during 2011, as they were in 2010. Non-recurring funds from state sources (for example, capital project cancellations and funding changes, program reserves, and the revenue fluctuations reserve), as well as U.S. economic recovery sources, will be used to preserve core services and help state agencies and local service providers implement the reductions thoughtfully over a one-year or multi-year period. Under the current plan, budgeted expenditures will match revenue projections (which have been based on a slow economic recovery) without the use of non-recurring revenues.

Relevant financial policies

In 1996, legislation was enacted that determined the allocation goal for a reserve for revenue fluctuations to be five percent of the estimated state tax revenues to be allocated to the general fund and education trust fund. The revenue fluctuation reserve allows services to be maintained when revenue growth is slower than estimated in the budget. Amounts in the revenue fluctuation reserve may be utilized to meet state tax revenue shortfalls. Subject to specific provisions of the general appropriations bill, an amount not to exceed the greater of \$100 million or one-half (1/2) of the amount available in the reserve may be used to meet expenditure requirements in excess of budgeted appropriation levels. At June 30, 2010, the balance in this reserve was \$453.1 million.

In recent years, subject to the specific provisions of an appropriation act, state legislation was also passed that allows certain funds, reserve accounts or program carry forwards to be denied, and allows for the transfer of funds from the same, for purposes of meeting the requirements of funding the operations of state government. Certain reserve funds specific to the TennCare program (one of the largest government-run managed healthcare organizations in the country) have been preserved in an effort to prevent sudden financial instability from federal financing changes beyond the state's control.

The Governor may effect spending reductions to offset unforeseen revenue shortfalls or unanticipated expenditure requirements for particular programs. These spending reductions can take the form of deferred equipment purchases, hiring freezes, and similar cutbacks. If necessary, the Governor may reduce portions of administrative budgets prior to allotment. Furthermore, the governor is authorized to call special sessions of the General Assembly at any time to address financial or other emergencies.

Major initiatives

Tennessee maintains education as the state's top priority, considering it the key to the future success of the state. The state applied for and won a \$501.8 million grant in the competitive American Recovery and Reinvestment Act (ARRA) federal program called Race to the Top. This grant will be used for implementing a plan for comprehensive education reform. Key areas of reform are administration, standards and assessments, data systems, teachers and leaders, and school turn-around. The state continues to fund the Basic Education Program formula, which provides an equitable state share of K-12 public education funding to local education agencies.

ARRA funds in 2011, totaling \$1.3 billion, will assist in maintaining state services and will provide additional non-recurring support in federal grant programs.

Awards and acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Tennessee for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2008. This was the thirtieth consecutive year that the state has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report meets the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

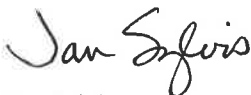
The Tennessee Consolidated Retirement System was awarded a Certificate of Achievement for Excellence in Financial Reporting for its comprehensive annual financial report for the fiscal year that ended June 30, 2009. This was the twenty-second consecutive year that the System received this prestigious award. In addition, for the seventeenth year, the state received GFOA's Distinguished Budget Presentation Award for its annual budget document for fiscal year 2009-2010. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, an operations guide, a financial plan, and a communications device.

The preparation of this report would not have been possible without the professionalism and dedication demonstrated by the entire staff of the Division of Accounts in the Department of Finance and Administration; and, the cooperation of all state agencies and branches. My sincerest appreciation is extended to all of the contributing staff and organizations.

Respectfully submitted,

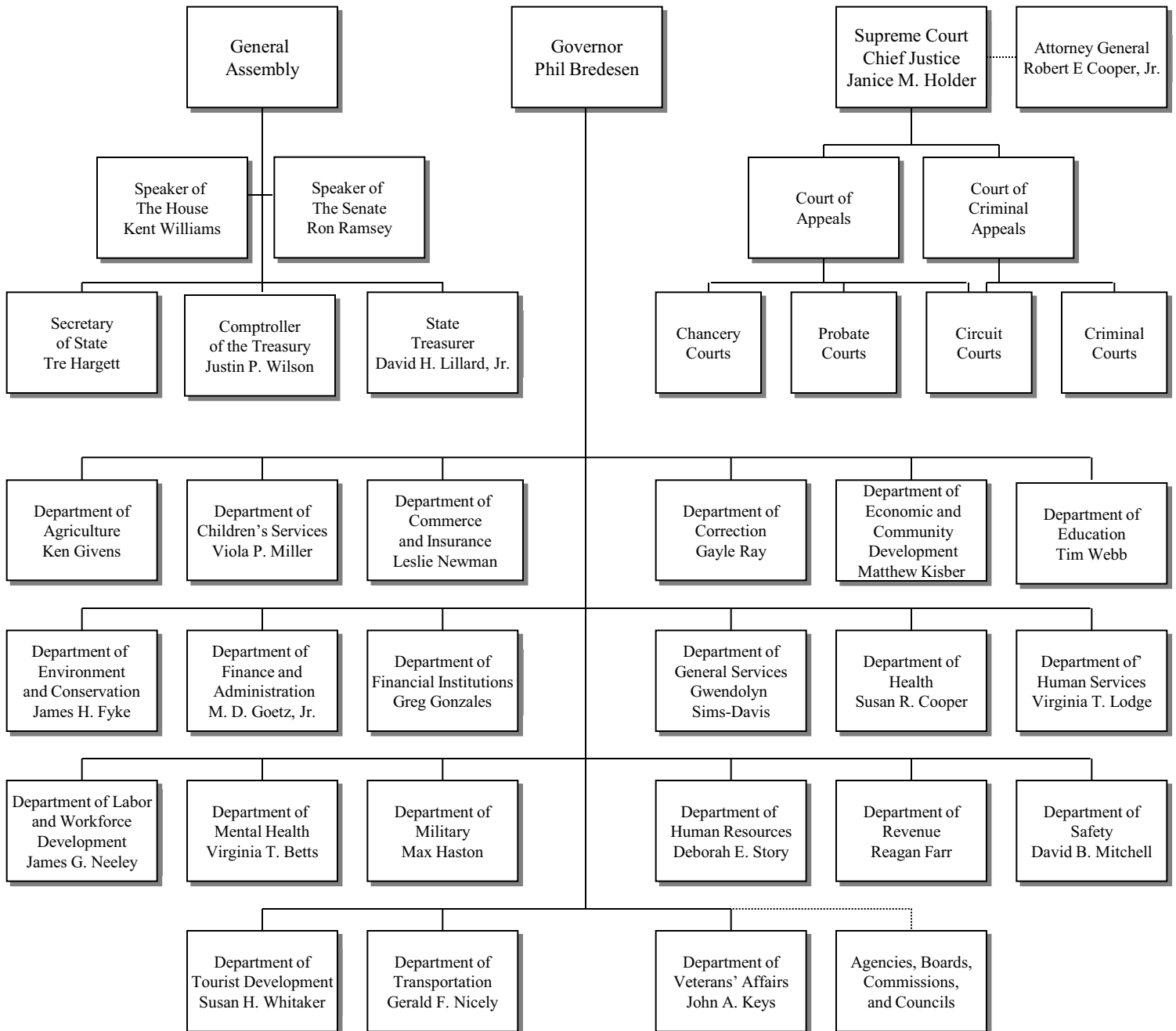


Mark A. Emkes
Commissioner



Jan Sylvis
Chief of Accounts

STATE OF TENNESSEE ORGANIZATION CHART As of June 30, 2010



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FINANCIAL SECTION



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT**

**SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765**

Independent Auditor's Report

March 29, 2011

To the Members of the General Assembly
of the State of Tennessee
and
The Honorable Bill Haslam, Governor
of the State of Tennessee

Ladies and Gentlemen:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of and for the year ended June 30, 2010, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Baccalaureate Education System Trust, Board of Claims, Board of Standards, Chairs of Excellence, Local Education Insurance Committee, Local Government Insurance Committee, State Building Commission, State Funding Board, State Insurance Committee, Tennessee Consolidated Retirement System, Tennessee Housing Development Agency, Tennessee Local Development Authority, Tennessee Student Assistance Corporation, and the Tennessee State School Bond Authority. We do not believe that the Comptroller's service in these capacities affected our ability to conduct an independent audit of the State of Tennessee.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the financial statements, the State implemented the Governmental Accounting Standards Board's statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, and statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

The management's discussion and analysis, the schedule of revenues, expenditures and changes in fund balances – budget and actual, infrastructure assets reported using the modified approach, other post employment benefits schedule of funding progress for primary government, other post employment benefits schedule of funding progress for component units, and AccessTN Insurance Fund – ten-year claims development table are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Tennessee's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with generally accepted government auditing standards, we have issued our report dated March 29, 2011, on our consideration of the State of Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters in the *Tennessee Single Audit Report*. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,



Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our management discussion and analysis (MD&A) of the State of Tennessee's (the State's) financial performance provides an overview of the State's financial activities for the year ended June 30, 2010. Please read it as a narrative introduction to the financial statements that follow. The information included here should be considered along with the transmittal letter which can be found on pages 3-6 of this report. MD&A includes a description of the basic financial statements for government, condensed financial information along with analyses of balances and financial position, descriptions of significant asset and debt activity, discussions of budgetary matters and significant issues affecting financial position.

FINANCIAL HIGHLIGHTS

- **Government-wide:**

Net Assets - The assets of the State exceeded its liabilities at June 30, 2010, by \$26.95 billion (reported as net assets). Of this amount, \$1.4 billion may be used to meet the State's obligations not funded by restricted net assets. However, \$23.36 billion of this amount represents *invested in capital assets, net of related debt*, which cannot be used to fund ongoing activities of the government.

Changes in Net Assets - The State's net assets increased by \$575.73 million. This increase was largely the result of an increase in capital assets.

Component units - Component units reported net assets of \$5.58 billion, an increase of \$536.9 million.

- **Fund Level:**

At June 30, 2010, the State's governmental funds reported combined ending fund balances of \$3.78 billion, an increase of \$2.3 million (see discussion on page 18) compared to the prior year. Of the combined fund balance approximately \$1.6 billion is available for spending at management's discretion (unreserved fund balance); however, \$453.1 million of this amount is designated for revenue fluctuations.

- **Long-Term Debt:**

The State's total debt increased by \$214.96 million during the fiscal year to total \$1.930 billion. This change primarily results from the State's decision to issue general obligation bonds during the fiscal year to obtain long-term financing for capital projects.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 25 and 26-27) provide information about the activities of the State as a whole (government-wide statements) and present a longer-term view of the State's finances. Fund financial statements start on page 30. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the State's operations in more detail than the government-wide statements by providing information about the State's most significant funds. The remaining statements provide financial information about activities for which the State acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the State as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the State as a whole begins on page 15. One of the most important questions asked about the State's finances is, "Is the State as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the State as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report financial information about the entire government except fiduciary activities. The statements distinguish between the primary government and its component units, and also distinguish between governmental activities and business-type activities of the primary government. The Statement of Net Assets displays all the State's financial and capital resources in the format of assets minus liabilities equal net assets. The Statement of Activities reports the State's operations by function to arrive at net revenue (expense). The statement reports what type revenue (either program revenue or general revenue) funds the government operations. The State functions that are identified on this statement correspond to the functions used for budgetary purposes:

- Governmental activities—general government; education; health and social services; law, justice and public safety; recreation and resources development; regulation of business and professions; transportation; intergovernmental revenue sharing; payments to fiduciary funds and interest on long-term debt.
- Business-type activities—employment security, insurance programs, loan programs and other.
- Component units—significant component units include the Tennessee Housing Development Agency, the Tennessee Education Lottery Corporation, the Tennessee Board of Regents, and the University of Tennessee. Although these and other smaller entities are legally separate, these "component units" are important because the State is financially accountable for them.

Reporting the State's Most Significant Funds

Fund financial statements

Our analysis of the State's major funds begins on page 18. The fund financial statements begin on page 30 and provide detailed information about the most significant funds—not the State as a whole. Some funds are required to be established by State law and by bond covenants. However, the State establishes many other funds to help it control and manage money for particular purposes (like capital projects) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The State's two kinds of funds—governmental and proprietary—use different accounting approaches.

Governmental funds focus on the near-term inflows and outflows of funds and the balances left at year-end available for spending. The *modified accrual basis of accounting* is used for these funds, which means that we measure cash and all other financial assets that can readily be converted to cash. These statements provide a short-term view of the State's basic general government operations. One can determine whether there are more or fewer financial resources that can be spent in the near future. The governmental activities in the Statement of Net Assets are reconciled to the governmental funds in the fund financial statements in a reconciliation at the bottom of the fund financial statements.

Proprietary funds report the government services that charge service fees to its customers. Proprietary funds include enterprise funds (serving citizens) and internal service funds (serving state agencies). The enterprise funds are the same as the business-type activities reported in the government-wide statements, but provide more detail; whereas, the internal service funds are included in the governmental activities.

Notes to the financial statements. Notes to the financial statements are also included and provide necessary information to understand the financial statements. They are an integral part of the financial statements and focus on the primary government and its activities. Some information is provided for significant component units.

The State as Trustee

Reporting the State's Fiduciary Responsibility

Fiduciary funds are used to report resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the State cannot use these assets to finance its operations. Instead, the State is responsible for using the fiduciary assets for the fiduciary fund's intended purposes.

THE STATE AS A WHOLE

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the State, combined assets exceeded liabilities by \$26.95 billion as of June 30, 2010.

By far, the largest portion of the State's net assets (87%) reflects its investment in capital assets (e.g., land, infrastructure, structures and improvements, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

State of Tennessee						
Net Assets						
(Expressed in Thousands)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 6,530,164	\$ 6,164,039	\$ 1,501,854	\$ 1,443,547	\$ 8,032,018	\$ 7,607,586
Capital assets	<u>24,046,140</u>	<u>23,108,828</u>			<u>24,046,140</u>	<u>23,108,828</u>
Total assets	<u>30,576,304</u>	<u>29,272,867</u>	<u>1,501,854</u>	<u>1,443,547</u>	<u>32,078,158</u>	<u>30,716,414</u>
Current and other liabilities	2,169,021	1,777,591	109,463	95,240	2,278,484	1,872,831
Noncurrent liabilities	<u>2,838,182</u>	<u>2,458,476</u>	<u>6,606</u>	<u>5,946</u>	<u>2,844,788</u>	<u>2,464,422</u>
Total liabilities	<u>5,007,203</u>	<u>4,236,067</u>	<u>116,069</u>	<u>101,186</u>	<u>5,123,272</u>	<u>4,337,253</u>
Net assets:						
Invested in capital assets,						
net of related debt	23,360,007	22,575,852			23,360,007	22,575,852
Restricted net assets	924,902	965,292	1,235,085	1,160,425	2,159,987	2,125,717
Unrestricted net assets	<u>1,284,192</u>	<u>1,495,656</u>	<u>150,700</u>	<u>181,936</u>	<u>1,434,892</u>	<u>1,677,592</u>
Total net assets	<u>\$ 25,569,101</u>	<u>\$ 25,036,800</u>	<u>\$ 1,385,785</u>	<u>\$ 1,342,361</u>	<u>\$ 26,954,886</u>	<u>\$ 26,379,161</u>

An additional portion of the State's net assets (8.01%) is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets (\$1.4 billion) and may be used to meet the State's ongoing obligations to citizens and creditors not funded by resources that are restricted.

At the end of the current fiscal year, the State was able to report positive balances in all three categories of net assets, for the government as a whole, and for its separate governmental and business-type activities.

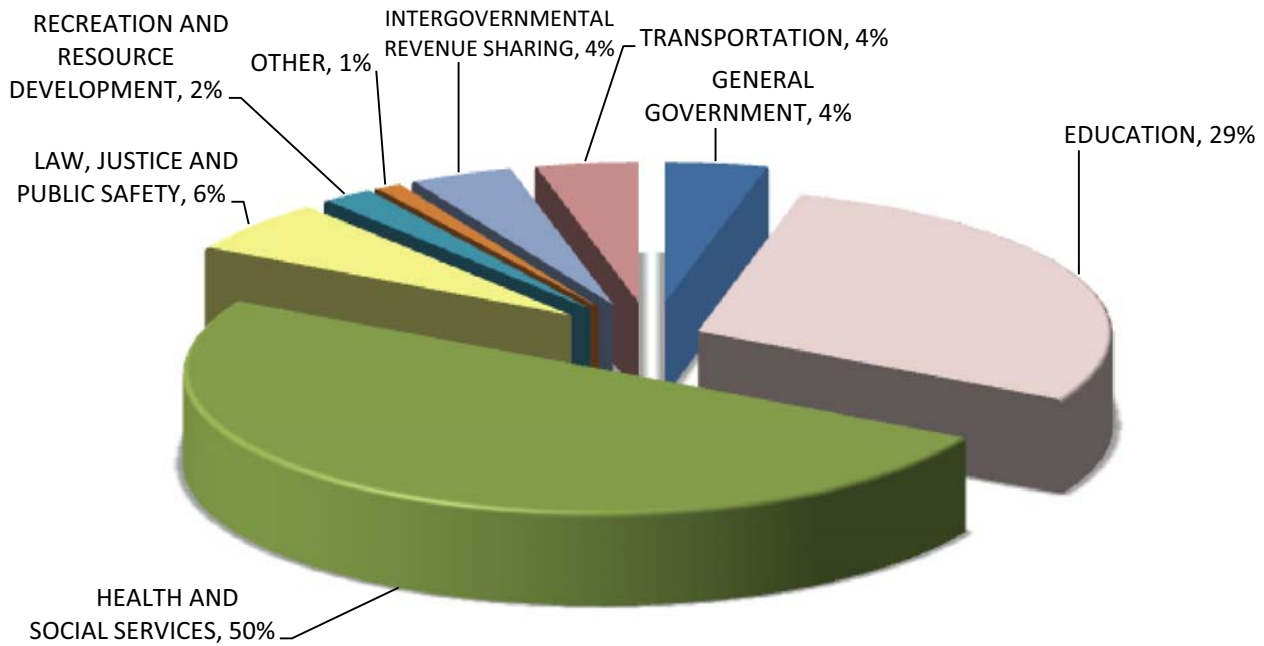
The State's net assets increased by \$575.7 million during the year ended June 30, 2010. A significant portion of this increase was attributable to the improvement of the economy during the second half of the fiscal year. This increase nearly corresponds to prior year's entire decline in net assets.

State of Tennessee
Changes in Net Assets
(Expressed in Thousands)

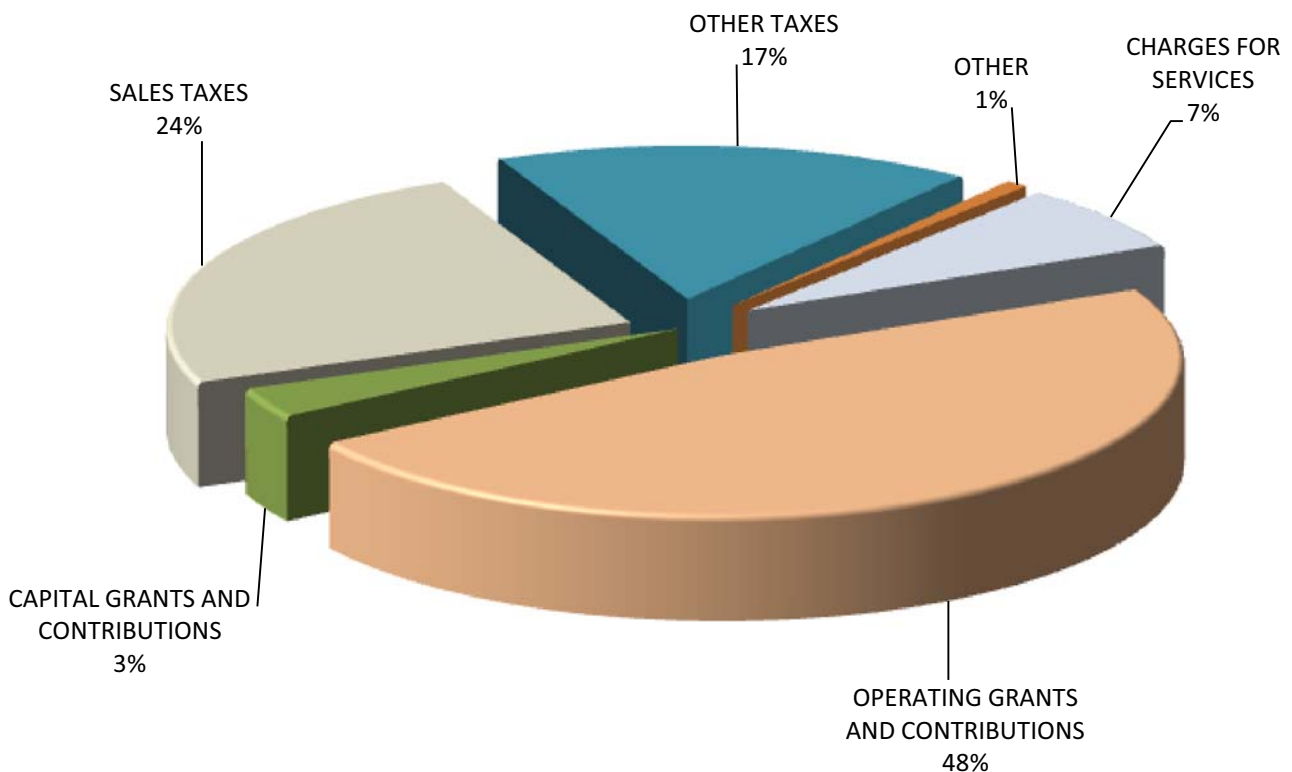
	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,762,448	\$ 1,835,813	\$ 1,253,402	\$ 1,107,025	\$ 3,015,850	\$ 2,942,838
Operating grants and contributions	12,076,579	9,758,691	1,482,113	508,249	13,558,692	10,266,940
Capital grants and contributions	782,188	592,719			782,188	592,719
General revenues:						
Sales Taxes	6,170,977	6,326,857			6,170,977	6,326,857
Other taxes	4,323,726	4,052,600			4,323,726	4,052,600
Other	202,659	269,790			202,659	269,790
Total revenues	<u>25,318,577</u>	<u>22,836,470</u>	<u>2,735,515</u>	<u>1,615,274</u>	<u>28,054,092</u>	<u>24,451,744</u>
Expenses:						
General government	1,078,294	988,309			1,078,294	988,309
Education	6,893,801	6,520,569			6,893,801	6,520,569
Health and social services	12,849,335	11,697,900			12,849,335	11,697,900
Law, justice and public safety	1,365,134	1,338,869			1,365,134	1,338,869
Recreation and resources development	499,080	538,386			499,080	538,386
Regulation of business and professions	132,784	126,003			132,784	126,003
Transportation	1,010,029	979,454			1,010,029	979,454
Intergovernmental revenue sharing	874,094	810,063			874,094	810,063
Interest on long-term debt	60,566	51,977			60,566	51,977
Payments to fiduciary funds	19,747				19,747	
Employment security			2,135,537	1,427,713	2,135,537	1,427,713
Insurance programs			557,371	514,065	557,371	514,065
Loan programs			1,406	1,345	1,406	1,345
Other			1,385	2,265	1,385	2,265
Total expenses	<u>24,782,864</u>	<u>23,051,530</u>	<u>2,695,699</u>	<u>1,945,388</u>	<u>27,478,563</u>	<u>24,996,918</u>
Increase (decrease) in net assets before contributions and transfers	535,713	(215,060)	39,816	(330,114)	575,529	(545,174)
Transfers	(3,608)	(3,541)	3,608	3,541		
Contributions to permanent funds	196	217			196	217
Increase (decrease) in net assets	<u>532,301</u>	<u>(218,384)</u>	<u>43,424</u>	<u>(326,573)</u>	<u>575,725</u>	<u>(544,957)</u>
Net assets, July 1	<u>25,036,800</u>	<u>25,255,184</u>	<u>1,342,361</u>	<u>1,668,934</u>	<u>26,379,161</u>	<u>26,924,118</u>
Net assets, June 30	<u>\$ 25,569,101</u>	<u>\$ 25,036,800</u>	<u>\$ 1,385,785</u>	<u>\$ 1,342,361</u>	<u>\$ 26,954,886</u>	<u>\$ 26,379,161</u>

Governmental activities. Net assets of the State's governmental activities increased by \$532 million, which accounts for 92.5% of the total increase in net assets of the primary government. This increase is primarily due to the use of funds to increase capital assets and an 11% increase in total revenues. The primary revenue increase was from an increase in grants and contributions, mostly from federal sources.

EXPENSES BY FUNCTION-GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE-GOVERNMENTAL ACTIVITIES



Business-type activities. Net assets of the State's business-type activities increased by \$43.4 million, a 3% increase. The Sewer Treatment Loan program and Employment Security trust fund experienced an increase in net assets of \$63.8 million due to an increase in loan proceeds and in the collection of employer premiums, respectively. The Nonmajor Enterprise funds' activity resulted in a \$20.4 million decrease in net assets.

THE STATE'S FUNDS

Tax collections and expenditures increased overall for the year. Details are in the following paragraphs. The Revenue Fluctuation Reserve has been decreased to \$453.1 million or 2.7% of General fund expenditures.

General fund revenue collections increased for the year by \$1.59 billion. Contributing to this increase were federal reimbursements which increased by \$1.7 billion due to increased expenditures in the TennCare program and as a result of funds received through the American Recovery and Reinvestment Act (ARRA). Offsetting the increase in federal revenue was a \$141.7 million decline in revenues received from departmental services and a \$32 million decline in investment income. Revenues from sales taxes decreased by \$53.4 million from prior year but, revenues from business taxes were \$192.6 million more than prior year.

General fund expenditures increased approximately \$1.1 billion. TennCare expenditures increased by \$500 million and an increase in Human Services expenditures accounts for \$608 million of the total increase. These increases reflect the rising cost of community residential placements and associated medical costs as well as a continued increased demand for services in the health and social services function. In addition, a large percentage of ARRA funds were allocated to programs under these agencies.

Assets in the General fund increased by approximately 17%. The fund balance of the General fund increased by 6.89%. These increases are, in part, the result of increased revenue collections as mentioned in the above paragraph.

The Education Trust fund revenue collections increased approximately \$522 million for the year. The increase was primarily a result of additional federal reimbursements received through ARRA.

Education Trust fund expenditures increased overall by \$347 million or 5.5%. The overall increase was due to additional ARRA funds allocated to No Child Left Behind, School Nutrition, Special Education Services, and higher education programs. The increase was offset by a reduction in expenditures in other educational programs of approximately \$289 million because of budget reductions due to expected decline in tax collections.

Overall revenues and expenditures increased \$165 million and \$275 million, respectively for the highway fund. Revenues and expenditures increased primarily as a result of the increase of federal funds through the ARRA. Also contributing to the increase in revenues and expenditures was the increase in the collections and remittances of fuel taxes to local governments. The excess of expenditures over revenues was funded with state reserves in the highway fund.

The total plan net assets of the pension trust funds were \$28.6 billion, an increase of approximately \$2.2 billion from the prior year. As a result of the improvement in the performance of the financial markets, the pension trust funds incurred a net investment gain of \$2.7 billion.

General Fund Budgetary Highlights

A significant variance occurred in tax revenues in the General fund between original and final budget primarily because of the significant shortfalls in sales and privilege tax revenue collections. Total tax collections were \$67 million under estimates. Business tax collections were over estimates, offsetting a \$95.9 million shortfall in sales tax collections. Significant variances occurred between the federal and departmental revenue budgeted amounts and actual collections because a large majority of the ARRA funds included in budget estimates were not expended in the current year. Actual expenditures in the TennCare program, Labor and Workforce Development, Economic and Community Development, Finance and Administration and Military were significantly less than was projected in the final budget primarily due to unexpended reserved amounts that were appropriated. The unspent ARRA funds previously mentioned also contributed to the variances in those programs and in Human Services programs. Another element in the favorable variance in TennCare actual expenditures was the fact that payments to Nursing Homes and ICF/MR private facilities were lower than budgeted. Military and Economic and Community Development were also allotted funds for multi-year projects for energy projects and flood damage repair. These allotments were non-lapsing and carried forward into the next fiscal year.

Capital Asset and Debt Administration

Capital Assets

The State's investment in capital assets at June 30, 2010, of \$24 billion, net of \$1.38 billion accumulated depreciation, consisted of the following:

Capital Assets—Primary Government (Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Land	\$ 1,699,404	\$ 1,549,073			\$ 1,699,404	\$ 1,549,073
Infrastructure	19,408,072	19,046,790			19,408,072	19,046,790
Construction in progress	1,304,279	946,886			1,304,279	946,886
Structures and improvements	2,205,722	2,116,399			2,205,722	2,116,399
Machinery and equipment	767,950	732,391	\$ 16	\$ 16	767,966	732,407
Software in development	37,335				37,335	
Subtotal	25,422,762	24,391,539	16	16	25,422,778	24,391,555
Accumulated depreciation	(1,376,622)	(1,282,711)	(16)	(16)	(1,376,638)	(1,282,727)
Total	<u>\$ 24,046,140</u>	<u>\$ 23,108,828</u>	<u>\$</u>	<u>\$</u>	<u>\$ 24,046,140</u>	<u>\$ 23,108,828</u>

More detail of the activity during the fiscal year is presented in Note 5C to the financial statements.

Capital assets, including those under construction, increased from fiscal year 2009 to 2010 by approximately 4.06 percent. The change was primarily due to purchases of land for highway right-of-ways and completion of segments of infrastructure (highways and bridges). Infrastructure increased in total by \$361 million, the majority of which resulted from highway and bridge projects completed and capitalized. Construction in progress for highways and bridges increased by \$719.5 million and decreased (projects completed and capitalized) by \$362.9 million. Infrastructure right-of-way acreage increased the land classification by \$98.4 million. The structures and improvements increase of \$89.3 million consisted largely of the completion of a new Mental Health facility in West Tennessee for approximately \$41.9 million and \$12.4 million for a new welcome center and rest area. The net change in machinery and equipment of \$35.58 million resulted primarily from \$17.9 million in purchases by the Department of Transportation for the purchase of light duty vehicles and \$5.9 million to equip the new Data Center South in Murfreesboro. The state had several systems projects in the application development stage, accounting for the capitalization of \$37.3 million in software in development.

In accordance with generally accepted accounting standards, the State is eligible for and has adopted an alternative approach to depreciating its roadways and bridges. Under the *modified approach*, governments are permitted to expense the cost of preserving roadways and bridges rather than to record a periodic charge for depreciation expense. Under the depreciation method, preservation expenses are capitalized. The State is responsible for approximately 14,000 miles of roadway and 8,163 bridges. Differences between the amount estimated to be necessary for maintaining and preserving infrastructure assets at targeted condition levels and the actual amounts of expense incurred for that purpose during the fiscal period are the results of timing differences. The budgeting process and the fact that projects are started at different times during the year and take more than 12 months to complete, results in spending in one year amounts that were budgeted in a previous fiscal year(s).

The decision to use the modified approach was essentially made because the State has consistently maintained its infrastructure in what it considers to be a good condition. The most recent condition assessment, which is discussed in more detail in the Required Supplementary Information section (Page 109), indicated that bridges were rated at 7 points above the State's established condition level and roadways were 14 points above the State's benchmark level. Bridges are assessed biennially and roadways annually.

The State's capital outlay budget for the 2009-2010 fiscal year reflects a \$73 million decline from previous years. The capital outlay budget included funding for both capital outlay projects and capital maintenance projects. A significant portion of the budgeted amounts included allocations for the maintenance of higher education and correctional facilities. Other new projects included Infrastructure and Land and Right of Way expenses for the Wacker Chemie AG and West TN Mega-site projects.

Debt Administration

In accordance with the Constitution, the State has the authority to issue general obligation debt that is backed by the full faith and credit of the State. The Legislature authorizes a certain amount of debt each year and the State Funding Board has oversight responsibility to issue the debt for capital projects. Capital spending is also authorized by the Legislature and the State Building Commission has oversight responsibility for all capital projects exceeding \$100 thousand (for new construction) and maintenance to existing facilities. The State issues Commercial Paper as a short-term financing mechanism for capital purposes and the Commercial Paper is typically redeemed with long-term bonds. The unissued balance by function (expressed in thousands) follows:

<u>Purpose</u>	<u>Unissued June 30, 2010</u>
Highway	\$ 998,400
Higher Education	46,344
Environment and Conservation	77
General Government	<u>961,235</u>
Total	<u>\$ 2,006,056</u>

More detail of the activity during the fiscal year is presented in Note 5H to the financial statements.

The State's outstanding general obligation debt consists of the following (expressed in thousands):

	<u>Governmental Activities</u>	
	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Bonds, net	\$ 1,688,820	\$ 1,538,942
Commercial Paper	<u>241,390</u>	<u>176,308</u>
Total	<u>\$ 1,930,210</u>	<u>\$ 1,715,250</u>

The State issued \$246.015 million in tax-exempt and taxable general obligation bonds during the fiscal year to redeem commercial paper, which is used to finance capital projects on a short-term basis, and to directly finance other capital projects. The state also issued \$43.985 million of tax-exempt general obligation refunding bonds to provide for the current refunding of \$42.95 million of general obligation bonds. Nearly two-thirds of the outstanding debt has been issued either for capital projects of two of the State's major Component Units-University of Tennessee and Tennessee Board of Regents-or provided to local governments as capital grants; assets acquired with this debt belong to those entities. The State has not issued bonds to fund infrastructure since 1976; infrastructure has been funded on a pay-as-you-go basis. Additional information on long-term obligations is presented in Note 5H to the financial statements.

The State's bonds are rated AAA, Aaa, and AA+ by Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Ratings Services, respectively. Under current State statutes, the general obligation debt issuances are subject to an annual legal debt service limitation based on a pledged portion of certain current year revenues. As of June 30, 2010, the State's annual debt service limit of \$489.1 million was well above the debt service required \$186.7 million, with a legal debt service margin of \$302.4 million.

FACTORS THAT WILL AFFECT THE FUTURE

Tennessee continues to be one of the most business-friendly states in the nation. Economic development trade publications have recognized that Tennessee has a business climate that encourages business expansion and relocation. In 2010, the editors of publications, such as *Site Selection*, *Southern Business and Development*, *Chief Executive Officer*, and *Business Facilities*, ranked Tennessee within the top three states in the nation for economic development, growth potential and doing business. Significant expansions and relocations that have occurred recently are discussed below.

In July 2010, NHK Seating of America announced plans to locate a \$54 million manufacturing facility for automotive parts in Murfreesboro, Tennessee.

In August 2010, SMW Automotive, a Tier 1 supplier of automotive chassis, suspension parts and subassemblies, will open a production facility in Shelbyville, Tennessee. The \$26 million facility will supply safety-critical parts such as brake and chassis components for a broad range of vehicles manufactured by companies such as Nissan and Volkswagen.

In September 2010, several companies announced expansions. Whirlpool Corporation is investing \$120 million in a new manufacturing facility to produce premium built-in cooking products in Cleveland, Tennessee. IB-Tech will invest \$50 million to manufacture high quality seat adjusters in Maury County, Tennessee. General Motors announced plans to expand the production of the next generation of its 4-cylinder engines at the company's Spring Hill plant, spending approximately \$483 million to install a third engine manufacturing line. General Mills announced its decision to invest \$100 million to expand the company's production facility in Murfreesboro, Tennessee. The plant manufactures products of General Mill's Yoplait brand.

In November 2010, Koyo Corporation announced the company's plan to invest \$30 million in its Washington County plant. Koyo is a Tier 1 and Tier 2 supplier of steering systems and drivelines for Toyota, Honda, Ford, GM and BMW.

Other major corporations also announced plans for increased investments and expansions. In December 2010, Olin Corporation announced their decision to invest \$160 million in new technology in its Charleston, Tennessee, plant. Olin will expand the production of potassium hydroxide and end its use of mercury cell technology in 2012 with this investment. Electrolux announced its decision to locate a \$190 million facility for the manufacture of major cooking appliances in Memphis, Tennessee. The plant will manufacture the company's Electrolux, and Frigidaire product lines, including ranges, wall ovens and cooktops. Amazon.com has finalized its commitment to establish two fulfillment centers in Tennessee, one in Chattanooga and one in Bradley County. Amazon.com plans to invest \$139 million to construct the two new facilities.

In March 2010, the Tennessee Department of Education won a four-year \$501.8 million grant from the federal government in its first phase of the Race to the Top competition to reform education. Each of Tennessee's 136 individual school districts submitted an individual budget plan, spanning the four years of the Race to the Top grant and outlining detailed reform efforts. The department is working with them to identify growth measures in untested subjects and grades to comply with the state's new evaluation requirements. The TN Department of Education proposed 15 student performance indicators that will be used to track progress toward meeting goals, along with ambitious targets for the level of student performance by 2019-20. As the result of the reforms, the state expects to see strong improvement in young students' academic readiness for school, high school graduates' readiness for college and careers, and higher rates of graduates' enrollment and success in postsecondary education. As part of this initiative, Tennessee has also placed its focus on recruiting and retaining top talent in schools across the state. In January 2011, several school systems were awarded competitive funds to assist in teacher recruitment and retention efforts.

Although sales tax revenues declined in fiscal years 2009 and 2010, beginning in April 2010 positive sales tax growth was recorded. Modest positive growth has been recorded since then through January 2011. The 2010 appropriations act included the use of \$195.8 million from the reserve in fiscal year 2010-2011, leaving an estimated balance of \$257.3 million in the reserve at June 30, 2011.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Tennessee's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Department of Finance and Administration, Division of Accounts, 312 Rosa Parks Avenue, Suite 1400, Nashville, TN 37243.

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BASIC FINANCIAL STATEMENTS

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State of Tennessee
Statement of Net Assets
June 30, 2010

(Expressed in Thousands)

Assets	Primary Government			Total Component Units
	Governmental Activities	Business-Type Activities	Total	
Cash and cash equivalents	\$ 2,642,171	\$ 419,522	\$ 3,061,693	\$ 2,026,921
Cash on deposit with fiscal agent		228,633	228,633	
Investments	597,530		597,530	1,163,828
Investments with fiscal agent				14
Receivables, net	3,061,760	217,142	3,278,902	643,959
Internal balances	15,766	(15,766)		
Due from primary government				26,679
Due from component units	87,750	6	87,756	
Inventories, at cost	27,723	39	27,762	12,629
Prepayments	222		222	13,160
Loans receivable, net	18,659	652,278	670,937	3,328,743
Lease receivable	3,349		3,349	
Deferred charges and other	1,799		1,799	39,925
Deferred outflow- derivatives				1,613
Restricted assets:				
Cash and cash equivalents	73,435		73,435	426,131
Investments				220,888
Receivables, net				2,169
Capital assets:				
Land, at cost	1,699,404		1,699,404	169,759
Infrastructure	19,408,072		19,408,072	336,062
Structures and improvements, at cost	2,205,722		2,205,722	4,018,736
Machinery and equipment, at cost	767,950	16	767,966	978,771
Less-Accumulated depreciation	(1,376,622)	(16)	(1,376,638)	(2,238,920)
Construction in progress	1,304,279		1,304,279	428,439
Software in development	37,335		37,335	
Total assets	30,576,304	1,501,854	32,078,158	11,599,506
Liabilities				
Accounts payable and other current liabilities	1,657,678	92,866	1,750,544	409,195
Due to primary government				87,756
Due to component units	26,632	47	26,679	
Unearned revenue	313,839	16,550	330,389	158,914
Payable from restricted assets	40,803		40,803	
Advance from federal government	126,939		126,939	
Fair value of derivatives				1,613
Other	3,130		3,130	33,917
Noncurrent liabilities:				
Due within one year	255,729	28	255,757	335,165
Due in more than one year	2,582,453	6,578	2,589,031	4,994,302
Total liabilities	5,007,203	116,069	5,123,272	6,020,862
Net assets				
Invested in capital assets, net of related debt	23,360,007		23,360,007	2,542,762
Restricted for:				
Wildlife Resources	37,649		37,649	
Capital projects	32,631		32,631	106,456
Lottery scholarships	401,957		401,957	
Single family bond programs				504,955
Sewer loans		759,183	759,183	
Unemployment compensation		357,390	357,390	
Drinking water loans		118,512	118,512	
Other	190,628		190,628	542,855
Permanent:				
Expendable	117,839		117,839	62,022
Nonexpendable	144,198		144,198	742,080
Unrestricted	1,284,192	150,700	1,434,892	1,077,514
Total net assets	\$ 25,569,101	\$ 1,385,785	\$ 26,954,886	\$ 5,578,644

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Statement of Activities
For the Year Ended June 30, 2010

(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ 1,078,294	\$ 778,352	\$ 176,073	\$ 234
Education	6,893,801	44,813	1,850,800	
Health and social services	12,849,335	499,694	9,596,430	1,402
Law, justice and public safety	1,365,134	121,201	190,122	20
Recreation and resources development	499,080	141,278	125,050	1,935
Regulation of business and professions	132,784	148,788	839	
Transportation	1,010,029	28,322	137,265	778,597
Intergovernmental revenue sharing	874,094			
Interest on long-term debt	60,566			
Payments to fiduciary fund	19,747			
Total governmental activities	24,782,864	1,762,448	12,076,579	782,188
Business-type activities:				
Employment security	2,135,537	710,113	1,458,523	
Insurance programs	557,371	525,662	576	
Loan programs	1,406	16,584	23,006	
Other	1,385	1,043	8	
Total business-type activities	2,695,699	1,253,402	1,482,113	
Total primary government	\$ 27,478,563	\$ 3,015,850	\$ 13,558,692	\$ 782,188
Component units:				
Higher education institutions	\$ 3,983,869	\$ 1,327,356	\$ 1,578,057	\$ 246,624
Loan programs	524,775	197,737	287,795	
Lottery program	1,064,216	1,063,967	45	
Other	88,571	54,784	8,751	326
Total component units	\$ 5,661,431	\$ 2,643,844	\$ 1,874,648	\$ 246,950

General revenues:

Taxes:

Sales and use

Fuel

Business

Other

Payments from primary government

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Miscellaneous

Contributions to permanent funds

Transfers

Total general revenues, contributions, and transfers

Change in net assets

Net assets, July 1

Net assets, June 30

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (123,635)		\$ (123,635)	
(4,998,188)		(4,998,188)	
(2,751,809)		(2,751,809)	
(1,053,791)		(1,053,791)	
(230,817)		(230,817)	
16,843		16,843	
(65,845)		(65,845)	
(874,094)		(874,094)	
(60,566)		(60,566)	
(19,747)		(19,747)	
<u>(10,161,649)</u>		<u>(10,161,649)</u>	
	\$ 33,099	33,099	
	(31,133)	(31,133)	
	38,184	38,184	
	<u>(334)</u>	<u>(334)</u>	
	39,816	39,816	
<u>(10,161,649)</u>	<u>39,816</u>	<u>(10,121,833)</u>	
			\$ (831,832)
			(39,243)
			(204)
			<u>(24,710)</u>
			<u>(895,989)</u>
6,170,977		6,170,977	
874,511		874,511	
2,944,465		2,944,465	
504,750		504,750	
			1,211,144
			143,519
7,245		7,245	24,896
195,414		195,414	9,024
196		196	44,313
<u>(3,608)</u>	<u>3,608</u>	<u></u>	<u></u>
<u>10,693,950</u>	<u>3,608</u>	<u>10,697,558</u>	<u>1,432,896</u>
532,301	43,424	575,725	536,907
<u>25,036,800</u>	<u>1,342,361</u>	<u>26,379,161</u>	<u>5,041,737</u>
\$ <u>25,569,101</u>	\$ <u>1,385,785</u>	\$ <u>26,954,886</u>	\$ <u>5,578,644</u>

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GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

General Fund—The General Fund is maintained to account for all governmental financial resources and transactions not accounted for in another fund.

Education Fund—The Education Fund is maintained to account for revenues and expenditures associated with programs involving the Departments of Education and Higher Education. Funding for these programs is accomplished primarily from the dedicated sales and services taxes and federal monies received from the U. S. Department of Education.

Highway Fund—This fund is maintained to account for revenues and expenditures associated with programs of the Department of Transportation. Funding of these programs is accomplished primarily from dedicated highway user taxes and funds received from the various federal transportation agencies. All federal funds accruing to the Highway Fund are received on a reimbursement basis covering costs incurred. It is the State's practice to appropriate matching dollars for jointly funded projects in the year of federal apportionment. This front-end state funding, together with multi-year disbursements on most projects, results in large cash balances in this fund. Effective July 1, 1986, the Department of Transportation began earning interest on certain unspent monies for a new highway construction program, while the General Fund earns the interest on the other highway program monies.

Nonmajor Governmental Funds—Nonmajor governmental funds are presented by fund type in the supplementary section.

State of Tennessee
Balance Sheet
Governmental Funds
June 30, 2010

(Expressed in Thousands)

	General	Education	Highway	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 1,199,295	\$ 8	\$ 292,817	\$ 667,350	\$ 2,159,470
Investments		387,348		210,182	597,530
Receivables, net	2,095,775	609,157	314,296	29,107	3,048,335
Due from other funds	250,679	105		1	250,785
Due from component units	347	85,524		1,875	87,746
Inventories, at cost	13,488	78	8,407		21,973
Prepayments	7				7
Deferred charges and other	3,277				3,277
Loans receivable, net	70		2,091	16,498	18,659
Leases receivable	1,289				1,289
Restricted assets:					
Cash and cash equivalents				73,435	73,435
Total assets	\$ 3,564,227	\$ 1,082,220	\$ 617,611	\$ 998,448	\$ 6,262,506
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	\$ 1,227,788	\$ 178,136	\$ 100,934	\$ 41,179	\$ 1,548,037
Due to other funds	10,898	234,797	811	313	246,819
Due to component units	2,037	22,756		1,839	26,632
Deferred revenue	366,797	99,003	10,271	15,982	492,053
Advance from federal government	89,296	2,480		35,163	126,939
Payable from restricted assets				40,803	40,803
Other	419		2,285	426	3,130
Total liabilities	1,697,235	537,172	114,301	135,705	2,484,413
Fund balances:					
Reserved for:					
Related assets	20,243	78	8,407	3,719	32,447
Contracts			204,695		204,695
Continuing appropriations	950,235	37,812			988,047
Statutory and other legal requirements	203,657	506,836	4,339	262,037	976,869
Unreserved, undesignated reported in:					
General fund	357				357
Special revenue funds		322	285,869	245,597	531,788
Debt service fund				6,715	6,715
Capital projects fund				344,675	344,675
Unreserved, designated for:					
Revenue fluctuations	453,100				453,100
Other specific purposes	239,400				239,400
Total fund balances	1,866,992	545,048	503,310	862,743	3,778,093
Total liabilities and fund balances	\$ 3,564,227	\$ 1,082,220	\$ 617,611	\$ 998,448	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	23,483,922
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	219,363
Internal service funds are used by management to charge the costs of various internal operations to individual funds. The assets and liabilities of internal service funds are included in the governmental activities in the Statement of Net Assets.	561,942
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,474,219)
Net assets of governmental activities	\$ 25,569,101

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	General	Education	Highway	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes:					
Sales	\$ 2,525,347	\$ 3,550,160	\$ 37,203	\$ 43,794	\$ 6,156,504
Fuel	15,389		733,623	125,499	874,511
Business	2,368,579	294,570	6,725	231,799	2,901,673
Other	499,181	123		13,371	512,675
Licenses, fines, fees, and permits	286,619	1,627	207,806	178,957	675,009
Investment income	12,875	324		23,244	36,443
Federal	10,019,856	1,494,098	911,897	45,791	12,471,642
Departmental services	2,057,329	30,512	32,726	75,140	2,195,707
Other	189,612	326,619	3,685	20	519,936
Total revenues	17,974,787	5,698,033	1,933,665	737,615	26,344,100
Expenditures					
Current:					
General government	534,660			23,353	558,013
Education		6,674,516		7,657	6,682,173
Health and social services	14,017,403				14,017,403
Law, justice and public safety	1,296,173			6,079	1,302,252
Recreation and resources development	391,525			164,192	555,717
Regulation of business and professions	84,228			54,972	139,200
Transportation			1,815,822		1,815,822
Intergovernmental revenue sharing	538,867		335,227		874,094
Debt service:					
Principal				101,804	101,804
Interest				64,344	64,344
Debt issuance costs				4,837	4,837
Capital outlay				485,937	485,937
Total expenditures	16,862,856	6,674,516	2,151,049	913,175	26,601,596
Excess (deficiency) of revenues over (under) expenditures	1,111,931	(976,483)	(217,384)	(175,560)	(257,496)
Other financing sources (uses)					
Bonds and commercial paper issued				415,033	415,033
Commercial paper redeemed				(155,973)	(155,973)
Refunding bond proceeds				43,985	43,985
Refunding payment to escrow				(43,985)	(43,985)
Bond premium				26,358	26,358
Other	20,978			168	21,146
Transfers in	119,563	997,768	108,600	106,916	1,332,847
Transfers out	(1,132,174)	(402)	(1,336)	(245,685)	(1,379,597)
Total other financing sources (uses)	(991,633)	997,366	107,264	146,817	259,814
Net change in fund balances	120,298	20,883	(110,120)	(28,743)	2,318
Fund balances, July 1	1,746,694	524,165	613,430	891,486	3,775,775
Fund balances, June 30	\$ 1,866,992	\$ 545,048	\$ 503,310	\$ 862,743	\$ 3,778,093

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2010

(Expressed in Thousands)

Net changes in fund balances - total governmental funds	\$	2,318
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.		840,233
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		34,240
--	--	--------

The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(183,614)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(134,912)
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Internal service funds are used by management to charge the cost of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities.		(25,964)
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Changes in net assets of governmental activities	\$	532,301
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The notes to the financial statements are an integral part of this statement.

PROPRIETARY FUNDS FINANCIAL STATEMENTS

Sewer Treatment Loan—Created in 1987, this fund provides loans to local governments and utility districts for the construction of sewage treatment facilities. The initial sources of the monies are federal grants and state appropriations.

Employment Security Fund—This fund is maintained to account for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants. Funds are also received from the federal government for local office building construction, supplemental unemployment programs and work incentive payments. As required by law, all funds not necessary for current benefit payments are placed on deposit with the U.S. Treasury. Interest earned from these monies is retained in the fund. Administrative and operational expenses incurred by the Department of Labor and Workforce Development are expenditures of the General Fund.

Nonmajor Enterprise Funds—Nonmajor Enterprise Funds are presented in the supplementary section.

Internal Service Funds—Internal Service Funds are presented in the supplementary section.

State of Tennessee
Statement of Net Assets
Proprietary Funds
June 30, 2010

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	
Assets					
Current assets:					
Cash and cash equivalents	\$ 205,813		\$ 213,709	\$ 419,522	\$ 482,701
Cash on deposit with fiscal agent		\$ 228,633		228,633	
Receivables:					
Accounts receivable, net		210,775	2,123	212,898	4,427
Interest	113	4,122	9	4,244	
Loans receivable	30,231		6,542	36,773	
Due from other funds		336		336	1,947
Due from component units		1	5	6	4
Inventories, at cost			39	39	5,750
Prepaid expenses					215
Total current assets	236,157	443,867	222,427	902,451	495,044
Noncurrent assets:					
Accounts receivable					8,998
Deferred charges					246
Due from other funds					1,350
Loans receivable	527,926		87,579	615,505	
Lease receivable					2,060
Capital assets:					
Land, at cost					66,327
Structures and improvements, at cost					525,821
Machinery and equipment, at cost			16	16	356,790
Less-accumulated depreciation			(16)	(16)	(429,229)
Construction in progress					42,509
Total capital assets, net of accumulated depreciation			-	-	562,218
Total noncurrent assets	527,926		87,579	615,505	574,872
Total assets	764,083	443,867	310,006	1,517,956	1,069,916
Liabilities					
Current liabilities:					
Accounts payable and accruals	567	53,832	38,492	92,891	85,489
Due to other funds		16,050	55	16,105	203
Due to component units		47		47	
Lease obligations payable					139
Bonds payable					17,312
Unearned revenue		16,548	2	16,550	40,951
Other					35,226
Total current liabilities	567	86,477	38,549	125,593	179,320
Noncurrent liabilities:					
Lease obligations payable					670
Commercial paper payable					70,107
Bonds payable, net					178,908
Other noncurrent liabilities	4,333		2,245	6,578	78,969
Total noncurrent liabilities	4,333		2,245	6,578	328,654
Total liabilities	4,900	86,477	40,794	132,171	507,974
Net assets					
Invested in capital assets, net of related debt					295,083
Unrestricted	759,183	357,390	269,212	1,385,785	266,859
Total net assets	\$ 759,183	\$ 357,390	\$ 269,212	\$ 1,385,785	\$ 561,942

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	
Operating revenues					
Charges for services	\$ 15,087		\$ 2,715	\$ 17,802	\$ 450,404
Investment income	724		192	916	
Premiums		\$ 710,113	525,487	1,235,600	591,710
Total operating revenues	<u>15,811</u>	<u>710,113</u>	<u>528,394</u>	<u>1,254,318</u>	<u>1,042,114</u>
Operating expenses					
Personal services			851	851	61,763
Contractual services	1,049		25,969	27,018	205,090
Materials and supplies			102	102	109,682
Rentals and insurance			3	3	46,483
Depreciation and amortization					42,987
Benefits		2,049,774	528,146	2,577,920	708,283
Other		85,763	4,042	89,805	6,579
Total operating expenses	<u>1,049</u>	<u>2,135,537</u>	<u>559,113</u>	<u>2,695,699</u>	<u>1,180,867</u>
Operating income (loss)	<u>14,762</u>	<u>(1,425,424)</u>	<u>(30,719)</u>	<u>(1,441,381)</u>	<u>(138,753)</u>
Nonoperating revenues (expenses)					
Taxes					2
Operating grants	21,149	1,449,854	11,125	1,482,128	5,850
Interest income		8,669	584	9,253	1,192
Interest expense					(8,702)
Other	(5,609)		(4,575)	(10,184)	
Total nonoperating revenues (expenses)	<u>15,540</u>	<u>1,458,523</u>	<u>7,134</u>	<u>1,481,197</u>	<u>(1,658)</u>
Income (loss) before contributions and transfers	30,302	33,099	(23,585)	39,816	(140,411)
Capital contributions					91,052
Transfers in	471		3,537	4,008	32,240
Transfers out			(400)	(400)	(8,845)
Change in net assets	30,773	33,099	(20,448)	43,424	(25,964)
Net assets, July 1	<u>728,410</u>	<u>324,291</u>	<u>289,660</u>	<u>1,342,361</u>	<u>587,906</u>
Net assets, June 30	<u>\$ 759,183</u>	<u>\$ 357,390</u>	<u>\$ 269,212</u>	<u>\$ 1,385,785</u>	<u>\$ 561,942</u>

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2010

(continued on next page)

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	
Cash flows from operating activities					
Receipts from customers and users		\$ 773,574	\$ 533,638	\$ 1,307,212	\$ 270,129
Receipts from interfund services provided		4,802	161	4,963	811,164
Payments to suppliers			(557,043)	(557,043)	(1,031,956)
Payments to employees			(856)	(856)	(59,382)
Payments for unemployment benefits		(2,043,109)		(2,043,109)	
Payments for interfund services used	\$ (1,049)	(87,473)	(4,679)	(93,201)	(61,588)
Net cash from (used for) operating activities	(1,049)	(1,352,206)	(28,779)	(1,382,034)	(71,633)
Cash flows from noncapital financing activities					
Operating grants received	21,149	1,429,694	11,150	1,461,993	
Negative cash balance implicitly financed			53	53	
Negative cash balance implicitly repaid		(20,405)		(20,405)	
Transfers in	471		3,537	4,008	32,240
Transfers out			(400)	(400)	(8,845)
Payments to component units			(25)	(25)	
Tax revenues received					2
Subsidy to borrowers			(5)	(5)	
Net cash from (used for) noncapital financing activities	21,620	1,409,289	14,310	1,445,219	23,397
Cash flows from capital and related financing activities					
Purchase of capital assets					(53,863)
Bond and commercial paper proceeds					70,902
Proceeds from sale of capital assets					1,053
Principal payments					(35,277)
Interest paid					(8,951)
Net cash from (used for) capital and related financing activities					(26,136)
Cash flows from investing activities					
Loans issued	(66,992)		(13,147)	(80,139)	
Collection of loan principal	22,805		3,834	26,639	
Interest received	15,661	8,669	2,244	26,574	1,192
Net cash from (used for) investing activities	(28,526)	8,669	(7,069)	(26,926)	1,192
Net increase (decrease) in cash and cash equivalents	(7,955)	65,752	(21,538)	36,259	(73,180)
Cash and cash equivalents, July 1	213,768	162,881	235,247	611,896	555,881
Cash and cash equivalents, June 30	\$ 205,813	\$ 228,633	\$ 213,709	\$ 648,155	\$ 482,701

(continued from previous page)

State of Tennessee
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income (loss)	\$ 14,762	\$ (1,425,424)	\$ (30,719)	\$ (1,441,381)	\$ (138,753)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization					42,987
Loss on disposal of capital assets					1,038
Bond issuance cost					15
Capital lease executory costs paid					28
Investment income			(1,631)	(1,631)	
Charges for services			(58)	(58)	
Interest income	(15,811)			(15,811)	
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable		62,229	2,130	64,359	2,565
(Increase) decrease in due from other funds		332		332	2,507
(Increase) decrease in due from component units		22	(5)	17	4
(Increase) decrease in inventories			(39)	(39)	(52)
(Increase) decrease in prepaid expenses					(77)
Increase (decrease) in accounts payable		9,846	1,544	11,390	16,903
Increase (decrease) in due to other funds		(1,710)	(2)	(1,712)	(12)
Increase (decrease) in due to component units		8		8	
Increase (decrease) in unearned revenue		2,491	1	2,492	1,214
Total adjustments	(15,811)	73,218	1,940	59,347	67,120
Net cash provided by (used for) operating activities	\$ (1,049)	\$ (1,352,206)	\$ (28,779)	\$ (1,382,034)	\$ (71,633)
Noncash investing, capital and financing activities					
Contributed capital assets					\$ 91,052
Total noncash investing, capital and financing activities					\$ 91,052

The notes to the financial statements are an integral part of this statement.

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FIDUCIARY FUNDS FINANCIAL STATEMENTS

Pension (and other Employee Benefit) Trust Funds—These funds are presented individually in the supplementary section.

Investment Trust Fund—This fund was created in July 1980 to account for local government deposits with the state treasurer and the related interest earnings. Through this program, the participating local governments achieve higher investment income by pooling their funds than they could realize individually.

Private-Purpose Trust Funds—These funds are presented individually in the supplementary section.

Agency Funds—These funds are presented individually in the supplementary section.

State of Tennessee
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds	Agency Funds
Assets				
Cash and cash equivalents	\$ 439,021	\$ 1,184,519	\$ 27,393	\$ 422,270
Receivables:				
Accounts				1,204
Taxes			43	366,726
Interest and dividends	138,407	1,156	626	
Due from sale of investments	1,186,679			
Derivative instruments	674,884			
Due from other governments	45,777			
Real estate income	91			
Other	26,963		60	
Total receivables	2,072,801	1,156	729	367,930
Due from other funds	8,700		9	
Due from component units	8,169			
Investments, at fair value:				
Short-term securities		1,248,873		
Government bonds	8,642,163			
Corporate bonds	5,331,082			
Corporate stocks	12,933,915			
Mutual funds			77,526	
Derivative instruments	4,264			
Private equities	26,613			
Real estate	973,245			
Total investments	27,911,282	1,248,873	77,526	
Total assets	30,439,973	2,434,548	105,657	790,200
Liabilities				
Accounts payable and accruals	1,186,481		664	682,261
Derivative instruments	678,248			
Amounts held in custody for others				107,939
Total liabilities	1,864,729		664	790,200
Net assets				
Held in trust for:				
Pension benefits	28,574,195			
Employees' flexible benefits	1,049			
Pool participants		2,434,548		
Individuals, organizations and other governments			104,993	
Total net assets	\$ 28,575,244	\$ 2,434,548	\$ 104,993	\$ -

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust	Private-Purpose Trust Funds
Additions			
Contributions:			
Members	\$ 263,774		
Employers	836,727		
Federal			\$ 6,753
Private			23,843
Other			46,056
Total contributions	1,100,501		76,652
Investment income:			
Net increase in fair value of investments	1,802,314		5,944
Interest	581,684	\$ 9,694	2,395
Dividends	273,297		
Real estate income	63,862		
Total investment income	2,721,157	9,694	8,339
Less: Investment expenses	28,811		
Administrative fee		1,240	
Net investment income	2,692,346	8,454	8,339
Capital share transactions:			
Shares sold		4,179,734	
Less: Shares redeemed		4,445,721	
Net capital share transactions		(265,987)	
Total additions	3,792,847	(257,533)	84,991
Deductions			
Annuity benefits:			
Retirement benefits	1,266,594		
Cost of living	261,479		
Death benefits	7,114		
Other	8,660		62,617
Refunds	36,423		2,820
Administrative expenses	7,543		5,366
Total deductions	1,587,813		70,803
Change in net assets held in trust for:			
Pension benefits	2,204,969		
Employees' flexible benefits	65		
Individuals, organizations and other governments		(257,533)	14,188
Net assets, July 1	26,370,210	2,692,081	90,805
Net assets, June 30	\$ 28,575,244	\$ 2,434,548	\$ 104,993

The notes to the financial statements are an integral part of this statement.

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State of Tennessee
Comprehensive Annual Financial Report
For the Year Ended June 30, 2010
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STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – Summary of significant accounting policies

A. Financial reporting entity

Introduction - As required by generally accepted accounting principles, these financial statements present the primary government (the State) and its component units, entities for which the State is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the primary government.

Discretely presented component units

1. The Tennessee Student Assistance Corporation (TSAC) (Governmental Fund Type) is responsible for guaranteeing student loans under federal programs and administering federal and state grants and loans to students. The majority of the Board is either appointed by the Governor or are state officials. TSAC's budget is approved by the State.
2. The Tennessee Community Services Agency (Governmental Fund Type) provides coordination of funds and programs for the care of the citizens of the State. The Board of the agency is appointed by the Governor and the plan of operation and budget must be approved by the State.
3. The Tennessee Housing Development Agency (Proprietary Fund Type) is responsible for making loans and mortgages to qualified sponsors, builders, developers and purchasers of low and moderate income family dwellings. The Board of the agency consists of state officials, appointees of the Governor, and appointees of the Speakers of the House and Senate. The agency budget is approved by the State.
4. The Tennessee Education Lottery Corporation (Proprietary Fund Type) is responsible for the operation of a state lottery with net proceeds to be given to the State to be used for education programs and purposes in accordance with the Constitution of Tennessee. The corporation is governed by a board of directors composed of seven directors appointed by the Governor.
5. The Tennessee Board of Regents (Proprietary Fund Type) is responsible for the operation of six universities, thirteen community colleges and twenty-seven technology centers. The Board is comprised of state officials and appointees by the Governor and the State provides a substantial amount of funding.
6. The University of Tennessee Board of Trustees (Proprietary Fund Type) is responsible for the operation of the University of Tennessee, located primarily on four campuses across the State. The Board is appointed by the Governor and the State provides a substantial amount of the funding.
7. The Tennessee Local Development Authority (Proprietary Fund Type) provides financing assistance to local governments through the issuance of bonds and notes. In addition, the Authority assists non-profit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. The majority of the Board consists of state officials; therefore, the State can impose its will on the Authority.
8. The Tennessee State Veterans' Homes Board (Proprietary Fund Type) is responsible for the operation of nursing homes for honorably discharged veterans of the United States armed forces. The Board is appointed by the Governor and its budget is approved by the State. In addition, the issuance of bonds must be approved by the State Funding Board.
9. The Tennessee State School Bond Authority (Proprietary Fund Type) finances projects for the University of Tennessee, Tennessee Board of Regents and the Tennessee Student Assistance Corporation. The Authority also finances improvement projects for qualifying K-12 schools in the State in conjunction with a federal government program. The Board of the Authority consists primarily of state officials; therefore, the State is able to impose its will on the organization.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

10. The Tennessee Certified Cotton Growers' Organization (Proprietary Fund Type) was formed to aid in the eradication of the Boll Weevil. The majority of the Board is appointed by the Commissioner of the Department of Agriculture, and the State provides a substantial amount of funding.
11. The Access Tennessee (Proprietary Fund Type) health insurance pool was established to offer health insurance coverage to eligible citizens of the state who are considered uninsurable because of health conditions. The Board of the insurance pool consists of state officials, appointees of the Speakers of House and Senate, and appointees of the Commissioner of Finance and Administration. The funding plan and plan of operation of the insurance pool are approved by the State.

Complete financial statements for each of the individual component units may be obtained at the following addresses:

Tennessee Housing Development Agency
1114 Parkway Towers
404 James Robertson Parkway
Nashville, TN 37243

Tennessee Local Development Authority
Suite 1600, James K. Polk Building
Nashville, TN 37243

Tennessee State Veterans' Homes Board
345 Compton Road
Murfreesboro, TN 37130

Tennessee State School Bond Authority
Suite 1600, James K. Polk Building
Nashville, TN 37243

University of Tennessee
Office of the Treasurer
301 Andy Holt Tower
Knoxville, TN 37996-0100

Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, TN 37217

Tennessee Education Lottery Corporation
Plaza Tower Metro Center
200 Athens Way
Nashville, TN 37228

All others may be obtained at the following:
Finance & Administration
Division of Accounts
Suite 1400, William R. Snodgrass Tennessee
Tower
312 Rosa L. Parks Avenue
Nashville, TN 37243

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements except for agency funds which have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are typically recorded only when payment is due. Also, agency funds, custodial in nature, do not recognize revenues and expenditures and do not present the results of operations or have a measurement focus.

Generally, sales and gross receipt taxes, as well as petroleum and vehicular related taxes and fees and other similar measurable fines, are considered to be available if received in the first 60 days of the new fiscal year. Federal grants, departmental services, and interest associated with the current fiscal period are all considered to be available if received in six months, however, tobacco settlement monies are considered to be available if received in twelve months. All other revenue items are considered to be measurable and available only when cash is received by the State.

The State reports the following major governmental funds:

The *general fund* is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *education fund* accounts for the financial resources associated with programs involving the Departments of Education and Higher Education.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

The *highway fund* accounts for the financial resources associated with the programs of the Department of Transportation.

The State reports the following major proprietary funds:

The *sewer treatment loan fund* accounts for loans made to local governments and utility districts for the construction of sewage treatment facilities.

The *employment security fund* accounts for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

Additionally, the State reports the following fund types:

Internal service funds account for services provided to other departments or agencies of the State, or to other governments, on a cost reimbursement basis. Internal service fund services include the provision of information technology, facilities management, fleet services, risk management, employee health insurance, accounting services, and purchasing services. Other services include printing, food, postal, records management, supplies, and products provided by Department of Correction inmates.

The *fiduciary fund types* are used to account for resources legally held in trust. Fiduciary activities include the employee pension plan and a flexible benefits plan. Also included is *Baccalaureate Education*, a trust created to permit the purchase of tuition units that may be used at certain higher education institutions. *Children in State Custody* is a fund used to hold monies for the benefit of children in State custody. *Oak Ridge Monitoring* is a trust funded by the federal government for the purpose of monitoring the Oak Ridge landfill for radioactive leakage. *TNInvestco* is a fund that accounts for proceeds held and used to carry out the provisions of the Tennessee Small Business Investment Company Credit Act. Three agency funds account for 1) funds distributed to local governments in the state, 2) refundable deposits and other receipts held in trust until the State is authorized to disburse the funds, and 3) premiums and claims expense of retired employees who participate in the state's healthcare plans.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of internal activity, interdepartmental revenues and expenditures (both direct and indirect expenditures), has been eliminated from the government-wide financial statements. An exception is that interfund services provided and used between functions have not been eliminated.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Investment income of certain proprietary funds is classified as operating revenue because those transactions are a part of the funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
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When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, then, unrestricted resources as they are needed.

Expenditures or expenses for on-behalf payments for local education agencies participating in the Teacher Group Plan and the Medicare Supplement Plan, and for component unit retirees participating in the Medicare Supplement Plan, reduce the Annual Required Contribution for the state's obligation to partially or fully fund the subsidized portion of the retiree's health insurance premiums.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments—The State's cash and cash equivalents includes demand accounts, petty cash and monies in cash management pools. The liquidity of the cash management pools is sufficient to cover any withdrawal request by a participant. This classification also includes short-term investments with a maturity date within three months of the date acquired by the State. These short-term investments, which are not part of the State Cash Pool, are stated at fair value. Investments in the State Cash Pool are stated at cost or amortized cost as this pool is a 2a7-like pool. Collateral, as required by law, is pledged by the various banks and government securities dealers to guarantee state funds placed with them. It is the State's policy to include cash management pools as cash.

Investments not in the State Cash Pool are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values. Investment income consists of realized and unrealized appreciation or depreciation in the fair value of investments. Interest income is recognized when earned. Securities and security transactions are recorded in the financial statements on trade-date basis.

2. Receivables and payables—All outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are shown net of an allowance for uncollectibles. Receivables in the State's governmental and fiduciary funds primarily consist of taxes, interest, departmental services and federal revenues, see Note 1C.

3. Inventories and prepaid items—Inventories of materials and supplies are determined by physical count and are valued at cost, principally using the first-in/first-out (FIFO) method. The average cost method is used for the Highway Fund (a Special Revenue Fund) and Motor Vehicle Management, Central Stores and General Services Printing (Internal Service Funds). The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets—Proceeds of the State's general obligation commercial paper program that remain unspent at year end are classified as restricted cash on the Statement of Net Assets. The commercial paper program provides short-term financing for the State's capital projects.

Component units that issue revenue bonds – Tennessee Housing Development Authority, Tennessee State School Bond Authority, Tennessee Local Development Authority, and Veterans' Homes Board – report restricted cash and investments to 1) satisfy bond covenant requirements, 2) reflect unspent bond, commercial paper, or note proceeds, and 3) reflect resources set aside to meet future debt service payments.

5. Capital assets—Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, with the exception of

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

infrastructure, are defined by the State as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of two years. Infrastructure assets are capitalized regardless of cost or useful life. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capitalized assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capitalized assets, except for land and infrastructure, are depreciated over their useful lives.

The State holds certain assets such as works of art, historical documents, and artifacts that have not been capitalized or depreciated because the collections are protected and preserved for exhibition, education, or research and are considered to have inexhaustible useful lives.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

The State has elected to apply the modified approach to accounting for infrastructure—roadways and bridges. The modified approach is an alternative to depreciation that may be applied to infrastructure capital assets that meet certain requirements. Under the modified approach, depreciation expense is not recorded for these assets. Instead, costs for both maintenance and preservation of these assets should be expensed in the period incurred. Additions and improvements are capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	20
Machinery and equipment	3-20

6. Compensated absences—It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the State's policy is to pay this only if the employee is sick or upon death. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements.
7. Long-term obligations—In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the unamortized bond premium or discount and, when applicable, the deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Net assets—consists of three components: *Invested in capital assets, net of related debt* consists of capital assets (including restricted capital assets), net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or commercial paper, and leases that are attributable to the acquisition,

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

construction, or improvement of those assets. Unspent debt proceeds at year end are not included in this calculation.

Restricted net assets consist of net assets in which constraints are placed on the use of those net assets either by external entities, such as creditors (debt covenants), grantors, contributors, and laws or regulations of other governments; or by constitutional provisions or enabling legislation of the State. Restrictions imposed by enabling legislation could be changed by future legislative action. Of the \$2.2 billion restricted by the primary government, \$444.1 million was by enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of “restricted net assets” or “invested in capital assets, net of related debt.”

9. Fund equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Reserves for statutory and other legal requirements include amounts reserved in connection with enabling legislation, constitutional provisions and other legal requirements. Designations of fund balance represent tentative management plans that are subject to change.
10. Fiscal year end—The fiscal year end of the primary government and component units is June 30, except for the Dairy Promotion Board, a special revenue fund; which has a December 31 year end. Also, the Certified Cotton Growers’ Organization, a component unit, has a December 31 year end.
11. Comparative data/reclassifications—Comparative total data for the prior year have not been presented.

NOTE 2 – Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net assets—governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$2,474.219 million difference are as follows (expressed in thousands):

Bonds payable	\$ 1,424,832
Plus: Premium on bonds issued (to be amortized as interest expense)	91,701
Less: Deferred charge for issuance costs (to be amortized over life of debt)	(1,353)
Less: Deferred charge for bond refundings (to be amortized as interest expense)	(23,933)
Commercial paper payable	171,283
Accrued interest payable	17,705
Capital leases payable	15,492
Claims and judgments	173,874
Compensated absences	231,330
Other post employee benefits	296,362
Pollution remediation	53,901
Other long-term liabilities and accounts payable	<u>23,025</u>
Net adjustment to reduce <i>fund balance—total governmental funds</i> to arrive at <i>net assets—governmental activities</i>	<u><u>\$ 2,474,219</u></u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense.” The details of this \$840.233 million difference are as follows (expressed in thousands):

Capital outlay	\$ 909,462
Depreciation expense	<u>(69,229)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u><u>840,233</u></u>

Another element of that reconciliation states that “The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$183.614 million difference are as follows (expressed in thousands):

Debt issued or incurred:	
Issuance of general obligation refunding bonds	\$ 43,985
Issuance of general obligation bonds	215,369
Issuance of commercial paper	199,663
Bond premium capitalized	26,359
Debt reduced:	
General obligation bonds/payments to escrow	(43,985)
General obligation debt	(101,804)
Commercial paper redeemed	<u>(155,973)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u><u>183,614</u></u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$134.912 million difference are as follows (expressed in thousands):

Compensated absences	\$ (5,498)
Claims and judgments	47,316
Accrued interest	146
Capital lease	(685)
Other postemployment benefits	91,418
Pollution remediation	2,064
Amortization of deferred charge	40
Loss on disposal of capital assets	3,822
Amortization of issuance costs	180
Amortization of bond premiums	(6,303)
Amortization of deferred amount on bond refunding	<u>2,412</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 134,912</u>

NOTE 3 – Deficit fund equity

The Purchasing fund, an internal service fund, has a total net asset deficit of \$118 thousand. The Property Utilization fund, an enterprise fund, has a total net asset deficit of \$109 thousand. Both deficits occurred primarily as a result of the reporting of other post employment benefits at the fund level in accordance with GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

NOTE 4 – Accounting changes

The following schedule enumerates adjustments for the fiscal year ended June 30, 2010, (expressed in thousands):

	6/30/2009 Net Assets As Reported	Adjustments to Net Assets	6/30/2009 Net Assets As Restated
Government-wide statements:			
Component Units	\$ <u>5,030,034</u>	\$ <u>11,703</u>	\$ <u>5,041,737</u>
Total component units	\$ <u><u>5,030,034</u></u>	\$ <u><u>11,703</u></u>	\$ <u><u>5,041,737</u></u>

Adjustments to Net Assets

Component Units

- The University of Tennessee—\$9.795 million represents net assets of the University of Tennessee Research Foundation which is reported as a component unit of the University in this year’s statements.
- Tennessee Housing Development Agency—\$1.908 million represents revenue earned on or before June 30, 2009, but received on or after July 1, 2009.

Changes in Accounting Principle

The state has implemented Governmental Accounting Standards Board’s Statement 51, *Accounting and Financial Reporting for Intangible Assets*. The statement establishes accounting and financial reporting requirements for

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

intangible assets to reduce inconsistencies that have occurred in practice, thereby enhancing the comparability of such assets among state and local governments. Retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives and those that would be considered internally generated. As of June 30, 2010, the state did not have any intangible assets that required retroactive reporting.

In addition, the state has also implemented Governmental Accounting Standards Board's Statement 53, *Accounting and Financial Reporting for Derivative Instruments*. The statement requires that the fair value of derivative instruments be reported in the financial statements of the state and local governments. The statement further requires that derivatives be categorized as either a hedging derivative or an investment derivative. All of the State's derivative exposures at June 30, 2010, are categorized as investment derivatives and therefore the hedge accounting provisions of the GASB Statement No. 53 are not applicable. Changes in fair values of investment derivative instruments have been reported within the investment revenue classification of the State's financial statements.

Reclassification

The state reclassified the Community Development Fund, previously reported as a nonmajor special revenue fund, to the General Fund. As a result, fund balance of \$10.176 million was reclassified to the General Fund.

NOTE 5 – Detailed notes on all funds

A. Deposits and investments

Primary Government

The State's cash includes deposits in demand accounts, petty cash and monies in cash management pools. State statutes provide that funds in the state treasury be invested by the State Treasurer. The State Pooled Investment Fund (SPIF) is established by *Tennessee Code Annotated*, Section 9-4-603 "for the purpose of receiving and investing any money in the custody of any officer or officers of the state unless prohibited by statute to be invested." Participants in the SPIF include the general fund of the State and any department or agency of the State which is required by court order, contract, state or federal law or federal regulation to receive interest on invested funds and which are authorized by the State Treasurer to participate in the SPIF. In addition, funds in the State of Tennessee Local Government Investment Pool (LGIP) investment trust fund are consolidated with the SPIF for investment purposes only. The primary oversight responsibility for the investment and operations of the SPIF rests with the Funding Board of the State of Tennessee (Funding Board).

The State Pooled Investment Fund is authorized by statute to invest funds in accordance with policy guidelines approved by the Funding Board. The current resolution of the Funding Board gives the Treasurer approval to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, bonds, notes, and treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies, repurchase agreements for obligations of the United States or its agencies, and securities lending agreements whereby securities may be loaned for a fee. Investments in derivative type securities and investments of high risk are prohibited.

In addition to the funds in the State Pooled Investment Fund, the Tennessee Consolidated Retirement System (TCRS), a pension trust fund; the Baccalaureate Education System Trust (BEST), a private-purpose trust; the Lottery for Education Fund, a part of the Education Fund, a special revenue fund; and the Chairs of Excellence (COE) Trust, a permanent fund; are authorized by statutes to invest in long-term investments, including bonds, debentures, preferred stock and common stock, real estate and other good and solvent securities subject to the approval of the applicable boards of trustees.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

As of June 30, 2010, the State's investments for all funds were as follows (expressed in thousands):

PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS
INVESTMENTS

<u>Investment Type</u>	<u>Fair Value</u>	<u>United States¹ Treasury/Agency</u>
Debt Investments		
U.S. Government		
U.S. Government Treasuries, Notes, Bonds	\$ 1,341,360	\$ 1,331,321
U.S. Government STRIPS	2,357,182	2,357,182
U.S. Government Agencies	4,418,953	1,644
U.S. Government Asset-Backed	141,609	141,609
Municipal Bonds	104,066	
Mortgage-Backed		
Government Pass-through	3,369,751	521,007
Corporate Pass-through	471,001	
Collateralized Mortgage Obligations		
Corporate CMO's	410,479	
Corporate		
Corporate Bonds	3,637,501	
Corporate Asset-Backed	960,679	
Non-U.S. - Government/Sovereign	1,108,361	
Short Term		
Commercial Paper	1,276,739	
Agencies	160,997	
Total Debt Investments	<u>19,758,678</u>	<u>\$ 4,352,763</u>
Other Investments		
Equity		
U.S.	8,780,486	
Non-U.S.	4,179,865	
Derivatives	4,264	
Real Estate	973,245	
Private Equities	26,613	
Commingled Funds		
U.S. Equity	73,926	
U.S. Fixed Income	35,659	
Non-U.S. Equity	64,994	
Money Market Funds (rated AAA)	9,899	
Total Other Investments	<u>14,148,951</u>	
Total Investments	<u>\$ 33,907,629</u>	

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS
INVESTMENTS (continued)

Credit Quality Rating										
	AAA	AA	A	BBB	BB	B	CCC	CC	A1 ²	Not Rated ³
\$	10,039									
	1,301,934									\$ 3,115,375
	\$ 42,709	\$ 61,357								
										2,848,744
	398,619	51,718	18,782				\$ 1,882			
	63,468				\$ 18,065	\$ 90,299	217,956	\$ 11,783		8,908
	104,900	442,005	1,147,627	\$ 1,743,875	142,240	34,994		414		21,446
	657,380	142,133	43,677	65,621			15,580			36,288
	441,896	595,060								71,405
									\$ 1,276,739	
										160,997
\$	<u>2,978,236</u>	<u>\$ 1,273,625</u>	<u>\$ 1,271,443</u>	<u>\$ 1,809,496</u>	<u>\$ 160,305</u>	<u>\$ 125,293</u>	<u>\$ 235,418</u>	<u>\$ 12,197</u>	<u>\$ 1,276,739</u>	<u>\$ 6,263,163</u>

1. Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.

2. A1 is the highest rating category for commercial paper.

3. Includes securities that are implicitly guaranteed by the U.S. government but are not rated by Standard and Poor's or Moody's.

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STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

1. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the State's investments in debt securities as of June 30, 2010, are included in the previous schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. State statutes provide a process for financial institutions desiring to act as state depositories to be approved by the State Treasurer. Statutes also provide for the Commissioner of Financial Institutions to advise, on a timely basis, the Treasurer and the Commissioner of Finance and Administration of the condition of each state bank and state chartered savings and loan association, including his recommendations regarding its condition and safety as a state depository. Similar provisions apply to federally chartered banks and savings and loan associations designated as state depositories. This process ensures that institutions whose financial status is uncertain are monitored for collateral sufficiency. All certificates of deposit are required by policy to be placed directly with state depositories. All repurchase agreements are done with primary dealers in government securities which have executed a master repurchase agreement with the State. The SPIF's investment policy requires an AAA credit quality rating for the purchase of obligations of instrumentalities that are not fully guaranteed by the United States government. Prime banker's acceptances must be issued by domestic banks with a minimum AA long-term debt rating or foreign banks with an AAA long-term debt rating by a majority of the rating services that have rated the issuer. The short-term debt rating must be at least A1 or the equivalent by all of the rating services that rate the issuer. Commercial paper should be rated in the highest tier by all rating agencies that rate the paper. Commercial paper on a credit rating agency's negative credit watch list cannot be purchased under the SPIF's investment policy. The policy requires that a credit analysis report on the corporation be prepared prior to acquisition of the commercial paper.

The SPIF is not registered with the Securities and Exchange Commission (SEC) as an investment company but, through its investment policy adopted by the Funding Board, operates in a manner consistent with the SEC's Rule 2a7 of the *Investment Company Act of 1940*. Rule 2a7 allows SEC registered mutual funds to use amortized cost to report net assets in computing share prices. Likewise, the SPIF uses amortized cost accounting measures to report investments and share prices. During the fiscal year ended June 30, 2010, the State had not obtained or provided any legally binding guarantees to support the value of participant shares. The State of Tennessee has not obtained a credit quality rating for the SPIF from a nationally recognized credit ratings agency.

The TCRS' investment policy specifies that bond issues subject for purchase are investment grade bonds rated in the four highest ratings by one of the recognized rating agencies. In addition, the policy states that private placements that do not have an active secondary market shall be thoroughly researched from a credit standpoint and shall be viewed by TCRS' investment staff as having the credit quality rating equivalent of an AA rating on a publicly traded issue. For short-term investments, the TCRS' investment policy provides for the purchase of only the highest quality debt issues. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch. The investment policy also requires preparation of a credit analysis report on the corporation prior to purchasing commercial paper.

The COE Trust's investment policy states that the majority of investments should be placed in high quality debt securities to produce adequate income with minimal risk. In addition, for short-term investments, the investment policy states that only the highest quality short-term debt issues should be purchased.

The BEST investment policy states that the trust may acquire securities which are rated within the four highest grades at the time of acquisition by any of the recognized rating agencies. In addition, the policy requires that only the highest quality short-term debt issues, including commercial paper with ratings of A1 or P1, may be purchased. The policy further states that index funds may be utilized as an alternative to selecting individual securities.

The Lottery for Education Fund investment policy states that the fund may acquire securities which are rated within the four highest grades at the time of acquisition by any of the recognized rating agencies. Commercial

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required.

2. Concentration of Credit Risk

A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event the issuer fails on its obligations. An objective stated in the SPIF's investment policy is that the investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Acquisitions are monitored by policy to assure that no more than twenty percent (20%) of the book value of the pool, at the date of acquisition, is invested in a single United States government agency security and that such acquisition does not cause the SPIF's aggregate United States government agency holdings to exceed fifty percent (50%) of the total book value of the pool on such date.

In addition, the SPIF's investment policy limits the book value of prime banker's acceptances to five percent (5%) of the total book value of the pool and limits such investments in any one commercial bank to the lesser of five percent (5%) of the portfolio's book value or \$25 million. Prime commercial paper investments are limited to five percent (5%) of the total portfolio book value invested in any one single issuing corporation and the total holdings of an issuer's paper should not represent more than five percent (5%) of the issuing corporation's total outstanding commercial paper, with the maximum amount of a specific corporation's commercial paper limited to \$100 million, not including commercial paper maturing the next business day. Prime commercial paper shall not exceed forty percent (40%) of the total pool's book value. The TCRS' investment policy limits the maximum amount of a specific corporation's commercial paper that can be purchased to \$100 million. There are no other specific investment policies that limit the investments of the TCRS, the COE Trust, BEST, Lottery for Education Fund, or other State funds in any one issuer.

As of June 30, 2010, the combined SPIF, TCRS, COE Trust, BEST, Lottery for Education Fund, and other State funds held debt investments in certain organizations representing five percent (5%) or more of total investments, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments (expressed in thousands):

<u>Issuer Organization</u>	<u>Fair Value</u>	<u>Percentage</u>
Federal National Mortgage Association	\$ 2,959,939	8.73

3. Interest Rate Risk

Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The SPIF's investment policy with respect to maturity states that the dollar weighted average maturity of the pool shall not exceed ninety (90) days and that no investment may be purchased with a remaining maturity of greater than three hundred ninety-seven (397) calendar days. In addition, it is the intent of the Funding Board that the market value of the SPIF not deviate more than 0.5 percent from amortized cost. If it does, actions may include, but not be limited to, selling securities whose market value substantially deviates from amortized cost, and investing in securities with ninety (90) days or less to maturity. Agency variable rate notes are permitted by investment policy provided they are indexed to treasury bill, commercial paper, federal funds, LIBOR or the prime rates. It is the intent of the Funding Board that variable rate notes must move in the same direction as general money market rates. Prime banker's acceptances must have an original maturity of not more than two hundred seventy (270) days to be eligible for purchase, with the intent to hold to maturity. Prime commercial paper shall not have a maturity that exceeds one hundred eighty (180) days, and individual repurchase agreement transactions shall not have a maturity that exceeds ninety (90) days. The days to maturity on certificates of deposit ranged from 7 to 275 days at June 30, 2010. Interest rates on certificates of deposit held at June 30, 2010, ranged from .30% to .50%. The days to maturity on U.S. Government Agencies ranged from 7 to 397 days at June 30, 2010. Interest rates on U.S.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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Government Agencies held at June 30, 2010, ranged from 0% to 1.75%. The days to maturity on commercial paper ranged from 1 to 43 days at June 30, 2010. Interest rates on commercial paper held at June 30, 2010, ranged from .01% to .33%.

As of June 30, 2010, the combined SPIF portfolio and other state cash deposits and investments had the following weighted average maturities (expressed in thousands):

STATE POOLED INVESTMENT FUND
WEIGHTED AVERAGE MATURITY

Deposit/Investment Type	Fair Value	Weighted Average Maturity (Months)
U.S. Government Agencies/Treasuries	\$ 3,899,062	4.27
Commercial paper	1,025,638	0.17

The TCRS' investment policy does not specifically address limits on investment maturities. The fixed income portfolio, however, is benchmarked against the Citigroup Broad Investment Grade Index and tends to have a duration within a range around that index.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
DEBT INVESTMENTS
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2010	Effective Duration (Years)
Debt Investments		
Government Fixed Income		
Government Agencies	\$ 526,862	5.29
Government Bonds	2,287,577	7.03
Government Inflation Indexed	2,331,362	4.13
Government Mortgage-Backed	3,227,126	1.93
Government Asset-Backed	141,172	5.75
Municipal Bonds	118,024	9.00
Corporate Fixed Income		
Collateralized Mortgage Obligations	410,479	3.44
Commercial Mortgage Backed	454,043	2.31
Asset Backed Securities	959,443	0.55
Corporate Bonds	3,480,681	5.32
Guaranteed Fixed Income	10,039	0.25
Short Term		
Commercial Paper	251,101	0.02
Agencies	160,997	0.02
Total Debt Investments	\$ <u>14,358,906</u>	

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

The investment policy for the COE Trust states that the maturity of its debt securities may range from short-term instruments, including investments in the State Pooled Investment Fund, to long-term bonds, with consideration of liquidity needs. However, the policy does not specifically address limits on investment maturities. The fixed income portfolio is benchmarked against the Barclays Aggregate Index and tends to have a duration within a range around that index.

CHAIRS OF EXCELLENCE
DEBT INVESTMENTS
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2010	Effective Duration (Years)
Debt Investments		
U.S. Government		
U.S. Government Treasuries	\$ 16,077	8.51
U.S. TIPS	25,820	3.87
U.S. Agencies	6,319	3.54
Government Mortgage-Backed	26,555	1.35
Government Asset-Backed	437	6.24
Corporate Fixed Income		
Corporate Mortgage-Backed	11,272	2.80
Corporate Bonds	28,690	5.32
Corporate Asset-Backed	1,236	0.85
Total Debt Investments	<u>\$ 116,406</u>	

The investment policy of the Lottery for Education fund recommends a mix of investment grade fixed income securities of the Long and Intermediate Term Portfolio that, when combined with income earned from amounts allocated to meet liquidity needs, has a high probability of meeting such scholarship objectives.

LOTTERY FOR EDUCATION
DEBT INVESTMENTS
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2010	Effective Duration (Years)
Debt Investments		
Government Fixed Income		
Government Agencies	\$ 63,592	7.11
U.S. Government Treasuries	45,188	8.87
Government Mortgage-Backed	116,070	1.31
Corporate Fixed Income		
Commercial Mortgage Backed	5,686	8.17
Corporate Bonds	128,130	5.17
Total Debt Investments	<u>\$ 358,666</u>	

The investment policy for BEST states that bonds generally will be purchased and held to maturity, but when necessary, the portfolio will be actively managed in times of volatile interest rate swings to shorten the average maturity and protect principal value. The effective duration for the SSgA Aggregate Bond Index Fund that BEST utilizes was 4.56 years at June 30, 2010.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

Asset-Backed Securities-The TCRS invests in collateralized mortgage obligations which are mortgage-backed securities that are based on cash flows from interest and principal payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

4. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2010, was as follows (expressed in thousands):

Currency	Total Fair Value	Fixed Income	Equity	Cash
Australian Dollar	\$ 211,803	\$ 13,958	\$ 195,247	\$ 2,598
British Pound Sterling	854,109	105,779	746,819	1,511
Canadian Dollar	377,014	118,842	257,339	833
Danish Krone	57,646		57,479	167
Euro Currency	1,144,340	263,623	853,859	26,858
Hong Kong Dollar	116,389		115,557	832
Japanese Yen	1,445,642	595,061	851,743	(1,162)
New Zealand Dollar	5,809		5,809	
Norwegian Krone	56,697	11,098	45,273	326
Singapore Dollar	58,583		57,470	1,113
Swedish Krona	67,405		67,393	12
Swiss Franc	241,077		240,991	86
Total	<u>\$ 4,636,514</u>	<u>\$ 1,108,361</u>	<u>\$ 3,494,979</u>	<u>\$ 33,174</u>

5. Derivatives

The international securities in the TCRS' portfolio expose the TCRS to potential losses due to a possible rise in the value of the US dollar. The TCRS investment managers can reduce foreign currency exposure by selling foreign currency forward contracts, at agreed terms and for future settlement, usually within a year. The manager will reverse the contract by buying the foreign currency before the settlement date. A gain (loss) on this transaction pair will hedge a loss (gain) on the currency movement of the international security. The TCRS can sell up to 80% of its foreign currency exposure into US dollars. Any unrealized gain on foreign currency forward contracts has been reflected in the financial statements as an investment. The notional amount of the foreign currency forward contracts has been reflected in the financial statements as a receivable and a payable. Any unrealized loss on foreign currency forward contracts has been included in the payable established for the contracts.

The TCRS may buy or sell equity index futures contracts for the purposes of making asset allocation changes in an efficient and cost effective manner and to improve liquidity. Gains (losses) on equity index futures hedge losses (gains) produced by any deviation from the TCRS' target equity allocation. The gains and losses resulting from daily fluctuations in the fair value of the outstanding futures contract are settled daily, on the following day, and a receivable or payable is established for any unsettled gain or loss as of the financial statement date. As of June 30, 2010, the TCRS was under contract for fixed income and equity index futures and the resulting payable is reflected in the financial statements at fair value.

The TCRS is authorized to invest in To Be Announced (TBA) mortgage backed securities similar to the foreign currency forward contracts. The TCRS enters into an agreement to purchase pools of mortgage backed

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

securities prior to the actual security being identified. The TCRS will roll this agreement prior to settlement date to avoid taking delivery of the security. Any unrealized gain on TBA mortgage backed securities has been reflected in the financial statements as an investment. Any unrealized loss on TBA mortgage backed securities has been included in the payable established for mortgages. The notional amounts of these agreements have been included in the financial statements as a receivable and a payable. The TCRS invests in the derivatives to adjust its exposure to mortgage coupon risk and to replicate the return on mortgage backed securities portfolios without actually purchasing the security.

The TCRS is authorized to enter into option contracts and any income earned on option contracts has been included as investment income on the statements. The TCRS did have option contract activity during the year ending June 30, 2010; however, there were no option contracts outstanding at June 30, 2010.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2010, classified by type, and the changes in fair values of such derivative instruments for the year ended as reported in the financial statements are as follows (expressed in thousands):

		<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2010</u>		
	<u>Financial Statement Classification</u>	<u>Amount</u>	<u>Financial Statement Classification</u>	<u>Amount</u>	<u>Notional Amount</u>	<u>Currency</u>
Fiduciary Funds:						
Foreign Currency						
Forward Contracts						
		\$ 2,575		\$ 2,575	99,000	CAD
		185		185	19,030	EUR
		73		73	8,270	GBP
		(536)		(536)	6,287,850	JPY
	Investment Income	<u>\$ 2,297</u>	Derivative Instruments	<u>\$ 2,297</u>		
Future Contracts						
	Investment Income	\$ (23,484)	Derivative Instruments Payable	\$ (3,364)	\$ 105,747	
TBA Mortgage-Backed Securities						
	Investment Income	\$ 1,967	Derivative Instruments	\$ 1,967	\$ 474,634	

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

Component Units

The various component units are generally governed by the same State statutes as the State's policies described above.

1. University of Tennessee

The University is authorized by statute to invest funds in accordance with the University investment policies. Funds, other than endowment, annuity, and life income funds, invest similarly to the State policies. Endowment, annuity, and life income funds can be invested in equity securities and various other securities given prudent diversification.

Credit Risk

The University has no investment policy limiting its investment choice based on ratings issued by nationally recognized statistical rating agencies. The University's securities are rated by Moody's. As of June 30, 2010, the University's investments were rated as follows (expressed in thousands):

Rated Debt Instruments	Fair Value	Credit Quality Rating					
		US Treasury/ Agency	Aaa	Aa1	Aa2	Aa3	A1
U.S. Treasuries	\$ 2,993	\$ 2,993					
U.S. Agencies	7,139		\$ 7,139				
Corporate Bonds	20,455		1,041		\$ 1,346	\$ 678	\$ 2,637
Municipal Bonds	3,664			\$ 444	1,309	777	188
Mutual Funds – Bonds	32,350		20,485		9,377		
Mortgages and Notes	299						
Money Market Mutual Fund	742		742				
	<u>\$ 67,642</u>	<u>\$ 2,993</u>	<u>\$ 29,407</u>	<u>\$ 444</u>	<u>\$ 12,032</u>	<u>\$ 1,455</u>	<u>\$ 2,825</u>

(Continued)

Rated Debt Instruments	Credit Quality Rating						
	A2	A3	Baa1	Baa2	Baa3	Ba2	Unrated
U.S. Treasuries							
U.S. Agencies							
Corporate Bonds	\$ 4,986	\$ 3,222	\$ 2,103	\$ 3,347	\$ 1,018		\$ 77
Municipal Bonds			430				516
Mutual Funds – Bonds	473			1,897		\$ 118	
Mortgages and Notes							299
Money Market Mutual Fund							
Total	<u>\$ 5,459</u>	<u>\$ 3,222</u>	<u>\$ 2,533</u>	<u>\$ 5,244</u>	<u>\$ 1,018</u>	<u>\$ 118</u>	<u>\$ 892</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

Interest Rate Risk

The University does not have a formal policy that addresses interest rate risk. As of June 30, 2010, the University had the following debt investments and maturities (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Investments					
U.S. Treasuries	\$ 2,993	\$ 592	\$ 912	\$ 625	\$ 864
U.S. Agencies	7,139	78	1,751	3,378	1,932
Corporate Bonds	20,455	2,647	8,973	8,835	
Municipal Bonds	3,664		1,214	711	1,739
Mortgages and Notes	299		299		
Bond Mutual Funds	32,350			27,203	5,147
	<u>\$ 66,900</u>	<u>\$ 3,317</u>	<u>\$ 13,149</u>	<u>\$ 40,752</u>	<u>\$ 9,682</u>

University foundations' investments in the amount of \$109.296 million are not included in these disclosures because the foundations utilize private-sector accounting standards.

Alternative Investments

In its Consolidated Investment Pool, as part of its endowment assets, the University has investments in eighty-one limited partnerships, limited companies, corporations, and limited liability corporations. At June 30, 2010, the estimated fair value of these assets is \$301.3 million and total capital contributions, less returns of capital, equal \$332.3 million. These investments are not readily marketable, therefore, the estimated fair value is subject to uncertainty and may differ from the value that would have been used had a ready market existed; such differences could be material. The university's investment policy permits investment in various asset classes, such as these alternative investments, to ensure portfolio diversity. The fair values were estimated by the general partner of each limited partnership or manager of each corporate entity using various valuation techniques.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

2. Tennessee Board of Regents System

Credit Risk

The System is authorized by statute to invest funds in accordance with the Tennessee Board of Regents' investment policies. Funds, other than endowment, invest similarly to the State policies. Endowment funds can be invested in equity securities and various other securities given prudent diversification. The System has no formal investment policy that limits its investment choices based on ratings issued by rating agencies. As of June 30, 2010, debt investments of the System and its foundations (that utilize governmental accounting standards) were rated by Standard and Poor's as follows (expressed in thousands):

Rated Debt Instruments	Fair Value	U.S. Treasury/ Agency	Credit Quality Rating						
			AAA	AA	A	BBB	BB	CCC	Not Rated
U.S. Treasuries	\$ 43,497	\$ 43,497							
U. S. Agencies	77,785	2,633	\$ 74,724					\$	428
Corporate Bonds	19,558		444	\$ 2,261	\$ 12,023	\$ 2,761		\$ 313	1,756
Municipal Bonds	636		36	572	28				
Mutual Funds—Bonds	19,153		11,711	824	2,286	1,168	\$ 1,129		2,035
Collateralized Mortgage Obligation	1,877		623						1,254
Money Market Mutual Fund	1,631								1,631
Total Debt Instruments	\$ 164,137	\$ 46,130	\$ 87,538	\$ 3,657	\$ 14,337	\$ 3,929	\$ 1,129	\$ 313	\$ 7,104

Interest Rate Risk

The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to interest rate risk. As of June 30, 2010, debt investments and maturities of the system and its foundations (that utilize governmental accounting standards) follow (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	\$ 43,497	\$ 21,269	\$ 21,019	\$ 1,182	\$ 27
U.S. Agencies	77,785	1,645	68,857	5,124	2,159
Corporate Bonds	19,558	539	12,768	6,227	24
Municipal Bonds	636		311	325	
Mutual Funds—Bonds	19,153	360	5,536	5,475	7,782
Mortgage Backed Securities	1,250			61	1,189
Collateralized Mortgage Obligation	627			429	198
Total Debt Investments	\$ 162,506	\$ 23,813	\$ 108,491	\$ 18,823	\$ 11,379

The investments of certain foundations of the System are not included in these disclosures because these foundations utilize private-sector accounting standards. These foundations reported investments at fair value in the amount of \$184.249 million.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

3. Tennessee Housing Development Agency (THDA)

The Agency is authorized to establish policies for its funds to meet the requirements of bond resolutions and State statute. Funds are invested similarly to State policies.

The Agency's investment policy states that its portfolios will be diversified in order to reduce the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The Agency may invest one hundred percent of its portfolio in U.S. government securities due to the absence of credit risk. A minimum of five percent of the par value of total investments must mature within five years. No more than fifty percent of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Credit Risk

The Agency's investments as of June 30, 2010, were rated by Standard and Poor's as follows (expressed in thousands):

Rated Debt Instruments	Fair Value	U.S. Treasury/ Agency	Credit Quality Rating				Not Rated
			AAA	A-1+	AA-2		
U.S. Agencies	\$ 150,758		\$ 104,877	\$ 40,000	\$ 5,226		\$ 655
U.S. Treasuries	305,983	\$ 305,983					
Repurchase Agreements	124,000						124,000
Total Debt Instruments	<u>\$ 580,741</u>	<u>\$ 305,983</u>	<u>\$ 104,877</u>	<u>\$ 40,000</u>	<u>\$ 5,226</u>		<u>\$ 124,655</u>

Concentration of Credit Risk

At June 30, 2010, more than five percent of the Agency's investments are invested in the following single issuers (expressed in thousands):

Issuer	Fair Value	Percentage
Federal Home Loan Bank	\$ 51,166	8.81
Federal National Mortgage Association	73,223	12.61
Repurchase Agreements – U.S. Agency	124,000	21.35

Interest Rate Risk

As of June 30, 2010, the Agency had the following debt investments and effective duration (expressed in thousands):

Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$ 110,758	1.464
U.S. Agency Discount	40,000	0.000
U.S. Treasury Coupon	91,214	5.898
U.S. Treasury Discount	214,769	0.000
Repurchase Agreements	124,000	0.005
Total	<u>\$ 580,741</u>	

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

B. Accounts and notes receivable

Receivables at June 30, 2010, for the State's individual major funds and non-major and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following (expressed in thousands):

Primary Government							
	<u>Accounts</u>	<u>Taxes</u>	<u>Due From Other Government</u>	<u>Other</u>	<u>Total Receivables</u>	<u>Allowance for Uncollectibles</u>	<u>Net Total Receivables</u>
Governmental Activities:							
General	\$ 199,754	\$ 762,994	\$ 1,272,603	\$ 1,807	\$ 2,237,158	\$ (141,383)	\$ 2,095,775
Education	3,589	525,332	144,551		673,472	(64,315)	609,157
Highway	484	62,409	251,403		314,296		314,296
Nonmajor governmental	654	9,993	15,627	3,733	30,007	(900)	29,107
Internal Service	<u>4,407</u>		<u>8,998</u>	<u>2</u>	<u>13,407</u>	<u>(121)</u>	<u>13,286</u>
Total—governmental activities	<u>\$ 208,888</u>	<u>\$ 1,360,728</u>	<u>\$ 1,693,182</u>	<u>\$ 5,542</u>	<u>\$ 3,268,340</u>	<u>\$ (206,719)</u>	<u>\$ 3,061,621</u>
 Amounts not expected to be collected within one year							
		<u>\$ 33,130</u>	<u>\$ 8,998</u>				<u>\$ 42,128</u>
 Business-type Activities:							
Employment Security	\$ 54,108	\$ 156,057	\$ 37,283	\$ 4,122	\$ 251,570	\$ (36,673)	\$ 214,897
Sewer Treatment Loan				113	113		113
Nonmajor enterprise	<u>2,289</u>			<u>9</u>	<u>2,298</u>	<u>(166)</u>	<u>2,132</u>
Total—business-type activities	<u>\$ 56,397</u>	<u>\$ 156,057</u>	<u>\$ 37,283</u>	<u>\$ 4,244</u>	<u>\$ 253,981</u>	<u>\$ (36,839)</u>	<u>\$ 217,142</u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

C. Capital assets

Capital asset activity for the year ended June 30, 2010, was as follows (expressed in thousands):

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,549,073	\$ 150,405	\$ (74)	\$ 1,699,404
Infrastructure	19,046,790	362,912	(1,630)	19,408,072
Construction in progress	946,886	794,742	(437,349)	1,304,279
Software in development		37,335		37,335
Total capital assets, not being depreciated	<u>21,542,749</u>	<u>1,345,394</u>	<u>(439,053)</u>	<u>22,449,090</u>
Capital assets, being depreciated:				
Structures and improvements	2,116,399	92,951	(3,628)	2,205,722
Machinery and equipment	<u>732,391</u>	<u>59,118</u>	<u>(23,559)</u>	<u>767,950</u>
Total capital assets being depreciated	2,848,790	152,069	(27,187)	2,973,672
Less accumulated depreciation for:				
Structures and improvements	(849,112)	(51,356)	2,012	(898,456)
Machinery and equipment	<u>(433,599)</u>	<u>(61,372)</u>	<u>16,805</u>	<u>(478,166)</u>
Total accumulated depreciation	<u>(1,282,711)</u>	<u>(112,728)</u>	<u>18,817</u>	<u>(1,376,622)</u>
Total capital assets, being depreciated, net	<u>1,566,079</u>	<u>39,341</u>	<u>(8,370)</u>	<u>1,597,050</u>
Governmental activities capital assets, net	<u>\$ 23,108,828</u>	<u>\$ 1,384,735</u>	<u>\$ (447,423)</u>	<u>\$ 24,046,140</u>
Business Type activities:				
Capital assets, being depreciated:				
Machinery and equipment	\$ 16			\$ 16
Less accumulated depreciation for:				
Machinery and equipment	<u>(16)</u>			<u>(16)</u>
Business Type activities capital assets, net	<u>\$ -</u>			<u>\$ -</u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

Depreciation expense was charged to functions/programs of the primary government as follows (expressed in thousands):

Governmental activities:	
General Government	\$ 3,265
Education	1,269
Health and Social Services	8,650
Law, Justice and Public Safety	26,758
Recreation and Resource Development	11,047
Regulation of Business and Professions	610
Transportation	17,630
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>43,499</u>
Total depreciation expense – governmental activities	<u>\$ 112,728</u>

Highway Construction Commitments — At June 30, 2010, the Department of Transportation had contractual commitments of approximately \$863.5 million for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants (\$731.7 million) and general obligation bond proceeds (\$131.8 million).

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

Discretely Presented Component Units

Capital asset activity for the year ended June 30, 2010, for the discretely presented component units was as follows (expressed in thousands):

	Beginning Balance		Increases		Decreases		Ending Balance
Capital assets, not being depreciated:							
Land	\$ 159,847	\$	6,457	\$	(9,121)	\$	157,183
Construction in progress	512,628		282,592		(371,728)		423,492
Total capital assets, not being depreciated	<u>672,475</u>		<u>289,049</u>		<u>(380,849)</u>		<u>580,675</u>
Capital assets, being depreciated:							
Infrastructure	290,839		44,666		(452)		335,053
Structures and improvements	3,503,512		391,323		(8,351)		3,886,484
Machinery and equipment	914,870		96,545		(53,937)		957,478
Total capital assets being depreciated	<u>4,709,221</u>		<u>532,534</u>		<u>(62,740)</u>		<u>5,179,015</u>
Less accumulated depreciation for:							
Infrastructure	(150,072)		(13,093)		298		(162,867)
Structures and improvements	(1,402,615)		(97,549)		4,684		(1,495,480)
Machinery and equipment	(520,476)		(82,234)		50,454		(552,256)
Total accumulated depreciation	<u>(2,073,163)</u>		<u>(192,876)</u>		<u>55,436</u>		<u>(2,210,603)</u>
Total capital assets, being depreciated, net	<u>2,636,058</u>		<u>339,658</u>		<u>(7,304)</u>		<u>2,968,412</u>
Total capital assets, net	<u>\$ 3,308,533</u>	\$	<u>628,707</u>	\$	<u>(388,153)</u>	\$	<u>3,549,087</u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

The University of Tennessee Foundations, and certain Tennessee Board of Regents Foundations utilize FASB standards; therefore, only the June 30, 2010, balances are available as follows (expressed in thousands):

	<u>Ending Balance</u>
Capital assets, not being depreciated:	
Land	\$ 12,576
Construction in progress	<u>4,947</u>
Total capital assets, not being depreciated	<u>17,523</u>
Capital assets, being depreciated:	
Infrastructure	1,009
Structures and improvements	132,252
Machinery and equipment	<u>21,293</u>
Total capital assets being depreciated	<u>154,554</u>
Less: Total accumulated depreciation	<u>(28,317)</u>
Total capital assets, being depreciated, net	<u>126,237</u>
Total capital assets, net	<u><u>\$ 143,760</u></u>

D. Interfund balances

1. Interfund balances at June 30, 2010, consisted of the following (expressed in thousands):

D U E F R O M

	<u>General</u>	<u>Education</u>	<u>Highway</u>	<u>Employment Security</u>	<u>Nonmajor Governmental Funds</u>	<u>Nonmajor Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>Total</u>
D General		\$ 234,518		\$ 16,049	\$ 59	\$ 53		\$ 250,679
U Education	\$ 105							105
E Employment Security	336							336
T Nonmajor								
O Governmental Funds				1				1
Internal Service Funds	3,277				20			3,297
Fiduciary Funds	<u>7,180</u>	<u>279</u>	<u>\$ 811</u>		<u>234</u>	<u>2</u>	<u>\$ 203</u>	<u>8,709</u>
Total	<u><u>\$ 10,898</u></u>	<u><u>\$ 234,797</u></u>	<u><u>\$ 811</u></u>	<u><u>\$ 16,050</u></u>	<u><u>\$ 313</u></u>	<u><u>\$ 55</u></u>	<u><u>\$ 203</u></u>	<u><u>\$ 263,127</u></u>

Of the \$234.518 million due to the General Fund from the Education Fund, \$234.486 million resulted from a time lag between the dates the payments to local education agencies occurred and taxes are received in the Education Fund. The \$16.049 million due to the General Fund from Employment Security resulted from a time lag between the dates the funds are drawn and received from the Federal government. The amounts due to Fiduciary Funds resulted from a time lag in payment of payroll tax liabilities. The Office for Information Resources, an internal service fund, made loans of \$3.277 million to various general fund agencies for computer systems development. Of this amount, \$1.35 million is considered long term and not expected to be repaid within one year.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

2. COMPONENT UNITS PAYABLES

Component Units accounts payable to the Primary Government at June 30, 2010, consisted of the following (expressed in thousands):

**PAYABLE FROM
COMPONENT UNITS**

	Tennessee Housing Development Agency	Tennessee Education Lottery	Tennessee Board of Regents	University of Tennessee	Nonmajor Component Units	Total
PRIMARY GOVERNMENT:						
P General			\$ 202	\$ 6	\$ 139	\$ 347
A Education		\$ 84,560	93	871		85,524
Y Employment Security					1	1
A Nonmajor Governmental Funds			1,267	500	108	1,875
B Nonmajor Enterprise Funds			5			5
L Internal Service Funds			1	3		4
E Fiduciary Funds	\$ 57		4,138	3,954	20	8,169
T						
O Total	\$ 57	\$ 84,560	\$ 5,706	\$ 5,334	\$ 268	\$ 95,925

3. COMPONENT UNITS RECEIVABLES

Component Units accounts receivable from the Primary Government at June 30, 2010, consisted of the following (expressed in thousands):

**RECEIVABLE FROM
PRIMARY GOVERNMENT**

	General	Education	Employment Security	Nonmajor Governmental Funds	Total
COMPONENT UNITS:					
I					
V Tennessee Board of Regents		\$ 14,900		\$ 821	\$ 15,721
A University of Tennessee		7,856		1,018	8,874
B Nonmajor Component					
L Units	\$ 2,037		\$ 47		2,084
E					
Total	\$ 2,037	\$ 22,756	\$ 47	\$ 1,839	\$ 26,679
T					
O					

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

E. Transfers

Transfers between the various primary government funds for fiscal year ended June 30, 2010, are as follows (expressed in thousands):

Transfers Out	<u>Transfers In</u>								Total
	General	Education	Highway	Nonmajor Governmental Funds	Sewer Treatment	Nonmajor Enterprise Funds	Internal Service Funds	Private Purpose Trust Funds	
General		\$ 997,600		\$ 78,728	\$ 471	\$ 3,537	\$ 32,091	\$ 19,747	\$ 1,132,174
Education				402					402
Highway	\$ 1,336								1,336
Nonmajor Governmental Funds	109,150		\$ 108,600	27,786			149		245,685
Nonmajor Enterprise Funds	400								400
Internal Service Funds	8,677	168							8,845
Totals	\$ 119,563	\$ 997,768	\$ 108,600	\$ 106,916	\$ 471	\$ 3,537	\$ 32,240	\$ 19,747	\$ 1,388,842

Transfers are generally used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due and (3) use unrestricted resources from the general fund to finance various programs accounted for in other funds in accordance with statute or budgetary authorizations.

In the fiscal year ended June 30, 2010, the general fund transferred \$1.132 billion to other funds in accordance with statute or budgetary authorizations for the following purposes: \$997.6 million to subsidize the activities of the education fund, \$70.4 million for capital outlay expenditures, \$56.5 million to provide appropriations to finance various programs in other funds, \$4.1 million for payments for interfund services used, and \$3.4 million to provide for debt service payments.

The highway fund received a transfer from the debt service fund for \$108.6 million to cancel authorized and unissued highway bonds. These authorizations were originally recorded in the highway fund to fund a portion of their budget.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

F. Lease obligations

Operating Lease Obligations — The State has entered into various operating leases for land, buildings and equipment. Most leases contain termination clauses providing for cancellation after 30, 60 or 90 days' written notice to lessors. In addition, most leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the legislature. It is expected that in the normal course of business most of these leases will be replaced by similar leases. The State has also entered into various operating leases, which have non-cancelable lease terms. Below is a schedule of future minimum lease payments under these leases (expressed in thousands).

For the Year(s) Ended June 30	Noncancelable Operating Leases
2011	\$ 23,817
2012	18,658
2013	14,607
2014	9,101
2015	6,005
2016-2020	16,172
2021-2022	5,675
Total Minimum Payments Required	<u>\$ 94,035</u>

Expenditures for rent under leases for the years ended June 30, 2010 and 2009, amounted to \$59.5 million and \$61.8 million, respectively.

Capital Lease Obligations — The State leases office buildings and equipment that in substance are purchases and are reported as capital lease obligations. These leases are recorded as assets and liabilities at either the lower of fair value or the present value of the future minimum lease payments in the government-wide and proprietary fund statements. For capital leases reported in governmental funds, both the principal and interest portions of capital lease payments are recorded as expenditures of the applicable governmental function. The office building leases expire over the next 17 years. The effective interest rates for these leases range from 4.48% to 5%. Most of these leases contain at least one of the following options: (a) the state can, during the term of the lease or any period of extension or holdover, purchase the property or (b) the state can, at the end of the initial lease term, renew its lease or (c) terminate the lease for convenience at any time after the fifth year. The following is an analysis of the leased property under capital leases (expressed in thousands).

	<u>Governmental Activities</u>
Assets:	
Land	\$ 350
Buildings	\$ 31,110
Less: Accumulated Depreciation	<u>(2,086)</u>
	<u>29,024</u>
	<u>\$ 29,374</u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

At June 30, 2010, minimum annual lease payments are as follows (expressed in thousands):

For the Year(s) Ended June 30	Governmental Activities Lease Obligation Payable
2011	\$ 1,558
2012	1,560
2013	1,561
2014	1,562
2015	1,522
2016-2020	6,890
2021-2025	6,869
2026-2027	1,685
Total	23,207
Less - Interest	(6,779)
Less - Executory Costs	(128)
Present value of net minimum lease payments	\$ 16,300

G. Lease receivables

Capital Lease Receivable — The State, as lessor, entered into a lease agreement with the Nashville/Davidson County Metropolitan Government (lessee) for the Farmers' Market Facility. The lease term is 20 years with an option to renew the lease for an unlimited period of time. The agreement was signed in June 1995; an initial cash payment was made and the first of 19 payments began in fiscal year 1997. The State is subsidizing a part of the cost of this building.

The State, as lessor, entered into a lease agreement with the Nashville/Davidson County Metropolitan Government (lessee) for the Post-Mortem Facility. The lease term is 20 years beginning July 15, 2001, with an option to renew the lease for an unlimited period of time for a nominal amount. The State is subsidizing a part of the cost of this building. Minimum future lease payments to be received as of June 30, 2010 (expressed in thousands):

<u>Year Ended June 30</u>	<u>Total</u>
2011	\$ 459
2012	458
2013	461
2014	458
2015	460
2016-2021	1,208
Total minimum future lease payments	\$ 3,504
Net investment in direct financing leases at June 30:	
Minimum lease payments receivable	\$ 3,504
Plus: deferred charges	372
Net investment in direct financing lease	\$ 3,876

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

H. Long term debt

1. General Obligation Bonds – Bonds Payable at June 30, 2010, are shown below (expressed in thousands):

	<u>Amount</u>
<u>Governmental Activities:</u>	
General obligation bonds, 1.865% to 6.5%, due in generally decreasing amounts of principal and interest from \$120.571 million in 2011 to \$12.385 million in 2030	\$ 1,167,670
General obligation refunding bonds, 1999 Series A, 4.25% to 5%, principal and interest due in amounts from \$23.376 million in 2011 to \$5.398 million in 2015	77,401
General obligation refunding bonds, 2004 Series A, 4.91% to 5.1%, principal and interest due in amounts from \$1.632 million in 2011 to \$1.629 million in 2012	3,030
General obligation refunding bonds, 2004 Series C, 3.25% to 5.25%, principal and interest due in amounts from \$37.563 million in 2011 to \$11.388 million in 2018	208,594
General obligation refunding bonds, 2005 Series A, 3.5% to 5.25%, principal and interest due in amounts from \$10.631 million in 2011 to \$7.628 million in 2020	111,026
General obligation refunding bonds, 2009 Series B, 3% to 5%, principal and interest due in amounts from \$8.09 million in 2011 to \$7.544 million in 2022	104,183
General obligation refunding bonds, 2009 Series D, 1.865% to 5.589%, principal and interest due in amounts from \$2.001 million in 2011 to \$3.889 million in 2029	43,985
	<u>1,715,889</u>
Less: Unamortized bond refunding costs	(27,069)
Total Governmental Activities	<u>\$ 1,688,820</u>

General obligation bonds issued during the year ended June 30, 2010:

December 2009	Bond Series 2009C in the amount of \$235.89 million
	Bond Series 2009D in the amount of \$10.125 million
	Refunding Bond Series 2009D in the amount of \$43.985 million

The December 2009, bond series 2009C, general obligation bond issuance in the amount of \$235.89 million represents tax-exempt bonds maturing serially through 2030 at interest rates ranging from 2.5 percent to 5 percent. The bonds were sold at a premium of \$26.358 million. Proceeds of the bond issue and premium were used to redeem commercial paper and to directly finance other projects.

The December 2009, bond series 2009D, general obligation bond issuance in the amount of \$10.125 million represents taxable bonds maturing serially through 2029 at interest rates ranging from 1.865 percent to 5.589 percent. The bonds were not sold at a premium. Proceeds of the bond issue were used to redeem commercial paper.

In December 2009, the state issued general obligation refunding bonds, series 2009D, in the amount of \$43.985 million to provide for the current refunding of \$42.95 million of general obligation bonds issued in series 2004B. Proceeds from the current refunding were deposited in an irrevocable trust account with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the bonds are considered defeased and the liability for those bonds have been removed from the government wide statement of net assets. The refunding bonds were not sold at a premium.

The net carrying amount of the refunded bonds was \$39.26 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$4.725 million. This difference, reported in the accompanying financial statements as a reduction from bonds payable, is being charged to

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

operations through 2029 using the straight line method. The state completed the refunding to eliminate the possibility of higher interest rates due to the variable rate attached to the refunded bonds and to obtain a fixed interest rate going forward. As of the sale date, the refunding will increase the total debt service payments over the next 20 years by \$2.366 million and results in an economic loss (difference between present values of the old and new debt service payments) of \$1.361 million. However, if interest rates rise as expected, the loss may turn into a gain over the life of the new debt.

Prior-Year Defeasance of Debt

In prior years, the state defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the state's financial statements. On June 30, 2010, \$139.865 million of bonds outstanding are considered defeased.

2. General Obligation Commercial Paper – Governmental Activities Commercial Paper Payable at June 30, 2010, is shown below (expressed in thousands).

	<u>Commercial Paper</u>
General obligation commercial paper, interest rates ranging from .28% to .4% for tax exempt and .29% to .72% for taxable, varying maturities	\$ 241,390

The full faith and credit of the State, together with certain tax revenues, are pledged to secure all general obligation bonds and commercial paper listed above.

In March 2000, the State instituted a general obligation commercial paper program to provide interim or short-term financing of various authorized capital projects. Commercial paper may be issued as federally taxable or tax exempt and constitute bond anticipation notes. The commercial paper is sold at par as interest-bearing obligations in minimum denominations of \$100 thousand and integral multiples of one thousand in excess of such amount, with interest payable at maturity. The commercial paper has varying maturities of not more than 270 days from their respective dates of issuance. Interest rates vary depending on the market. The amount of principal outstanding may not exceed \$350 million.

The State has entered into a Standby Commercial Paper Purchase Agreement with the Tennessee Consolidated Retirement System under which TCRS is obligated to purchase newly issued commercial paper issued to pay the principal of other commercial paper. The Program expires and the Standby Purchase Agreement terminates on April 1, 2015. At June 30, 2010, \$241.39 million of commercial paper was outstanding (\$214.463 million tax exempt and \$26.927 million federally taxable). Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

3. Debt Service Requirements to Maturity - Debt Service requirements to maturity for all general obligation bonds payable at June 30, 2010, are as follows (expressed in thousands):

For the Year(s) Ended June 30	General Obligation Bonds		Total Requirements
	Principal	Interest	
2011	\$ 137,093	\$ 66,773	\$ 203,866
2012	132,791	61,287	194,078
2013	133,423	55,424	188,847
2014	127,193	49,610	176,803
2015	119,093	43,703	162,796
2016-2020	496,649	152,040	648,689
2021-2025	355,002	70,761	425,763
2026-2030	214,645	10,210	224,855
	<u>\$ 1,715,889</u>	<u>\$ 509,808</u>	<u>\$ 2,225,697</u>

The above principal for bonds does not reflect a \$27.069 million deduction from bonds payable for the deferred amount on refunding.

4. General Obligation Bonds Authorized and Unissued - A summary of general obligation bonds authorized and unissued at June 30, 2010, is shown below (expressed in thousands). It is anticipated that a significant amount of these bonds will not be issued but will be canceled because of sufficient fund balances.

Purpose	Unissued		Canceled	Unissued June 30, 2010
	July 1, 2009	Authorized		
Highway	\$ 942,500	\$ 164,500	\$ 108,600	\$ 998,400
Higher Education	55,892		9,548	46,344
Environment and Conservation	77			77
General Government	<u>1,215,056</u>	<u>29,600</u>	<u>283,421</u>	<u>961,235</u>
Totals	<u>\$ 2,213,525</u>	<u>\$ 194,100</u>	<u>\$ 401,569</u>	<u>\$ 2,006,056</u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

5. Changes in Long-Term Obligations - A summary of changes in long-term obligations for the year ended June 30, 2010, follows (expressed in thousands).

Changes In Long-Term Obligations					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
GOVERNMENTAL ACTIVITIES					
Bonds and Commercial Paper Payable:					
General Obligation Debt	\$ 1,743,893	\$ 560,658	\$ (347,272)	\$ 1,957,279	\$ 129,510
Less Deferred Amount on Refundings	<u>(28,643)</u>	<u>(4,725)</u>	<u>6,299</u>	<u>(27,069)</u>	
Total Bonds and Commercial Paper Payable	1,715,250	555,933	(340,973)	1,930,210	129,510
Capital Leases	17,088		(788)	16,300	798
Compensated Absences	240,963	152,765	(156,706)	237,022	88,452
Claims and Judgments	195,548	64,072	(41,431)	218,189	35,226
Pollution Remediation	81,685	40,110	(5,579)	116,216	1,743
Other Post Employment Benefits	207,942	92,555		300,497	
Other Long-Term Liabilities	<u> </u>	<u>19,748</u>	<u> </u>	<u>19,748</u>	<u> </u>
Governmental Activities Long-Term Obligations	<u>\$ 2,458,476</u>	<u>\$ 925,183</u>	<u>\$ (545,477)</u>	<u>\$ 2,838,182</u>	<u>\$ 255,729</u>
BUSINESS-TYPE ACTIVITIES					
Deposits Payable	\$ 5,779	\$ 660	\$ (5)	6,434	
Compensated Absences	94	47	(85)	56	\$ 28
Other Post Employment Benefits	<u>73</u>	<u>43</u>	<u> </u>	<u>116</u>	<u> </u>
Business-Type Activities Long-Term Obligations	<u>\$ 5,946</u>	<u>\$ 750</u>	<u>\$ (90)</u>	<u>\$ 6,606</u>	<u>\$ 28</u>

Governmental activities include all governmental funds and internal service funds. Typically, agencies accounted for in the General Fund and Special Revenue Funds liquidate compensated absences and OPEB liabilities. Claims and judgments are obligations of Highway Fund (special revenue fund), Risk Management (internal service fund) and the General Fund.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

I. Payables

Payables as of June 30, 2010, were as follows (expressed in thousands):

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Other</u>	<u>Total Payables</u>
Governmental Activities:					
General	\$ 1,037,225	\$ 75,769		\$ 121,975	\$ 1,234,969
Education	140,399	3,679		34,337	178,415
Highway	95,590	6,155			101,745
Nonmajor governmental	35,823	1,787	\$ 17,733	3,775	59,118
Internal Service	<u>81,217</u>	<u>2,214</u>			<u>83,431</u>
Total— governmental activities	<u>\$ 1,390,254</u>	<u>\$ 89,604</u>	<u>\$ 17,733</u>	<u>\$ 160,087</u>	<u>\$ 1,657,678</u>
Business-Type Activities:					
Employment Security	\$ 95			\$ 53,737	\$ 53,832
Sewer Treatment Loan	567				567
Other Proprietary	<u>38,440</u>	<u>\$ 20</u>		<u>7</u>	<u>38,467</u>
Total—business-type activities	<u>\$ 39,102</u>	<u>\$ 20</u>		<u>\$ 53,744</u>	<u>\$ 92,866</u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

J. Component units – condensed financial statements

Below are the condensed financial statements of the component units for the State of Tennessee as of June 30, 2010 (expressed in thousands):

Condensed Statement of Net Assets Component Units						
	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total Component Units
Assets						
Cash, Investments, and Other Assets	\$ 2,496,665	\$ 122,564	\$ 1,401,072	\$ 1,836,795	\$ 301,512	\$ 6,158,608
Due from Primary Government			15,721	8,874	2,084	26,679
Due from Other Component Units					1,072,184	1,072,184
Restricted Assets	418,188	2,248			228,752	649,188
Capital Assets, Net	79	1,359	1,930,886	1,732,279	28,244	3,692,847
Total Assets	<u>2,914,932</u>	<u>126,171</u>	<u>3,347,679</u>	<u>3,577,948</u>	<u>1,632,776</u>	<u>11,599,506</u>
Liabilities						
Accounts Payable and Other Current Liabilities	64,429	38,147	201,719	237,078	53,641	595,014
Due to Primary Government	57	84,561	5,706	5,334	268	95,926
Due to Other Component Units			526,736	545,448		1,072,184
Long-Term Liabilities	2,331,684	3,456	161,022	295,214	1,466,362	4,257,738
Total Liabilities	<u>2,396,170</u>	<u>126,164</u>	<u>895,183</u>	<u>1,083,074</u>	<u>1,520,271</u>	<u>6,020,862</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	79	1,359	1,406,876	1,112,139	22,309	2,542,762
Restricted	514,383	7	447,833	992,700	3,445	1,958,368
Unrestricted	4,300	(1,359)	597,787	390,035	86,751	1,077,514
Total Net Assets	<u>\$ 518,762</u>	<u>\$ 7</u>	<u>\$ 2,452,496</u>	<u>\$ 2,494,874</u>	<u>\$ 112,505</u>	<u>\$ 5,578,644</u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

Condensed Statement of Activities
Component Units

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Component Units:				
Housing Development Agency	\$ 396,305	\$ 136,160	\$ 268,805	
Tennessee Education Lottery	1,064,216	1,063,967	45	
Board of Regents	2,253,852	784,612	803,378	\$ 101,569
University of Tennessee	1,730,017	542,744	774,679	145,055
Nonmajor Component Units	217,041	116,361	27,741	326
Total	<u>\$ 5,661,431</u>	<u>\$ 2,643,844</u>	<u>\$ 1,874,648</u>	<u>\$ 246,950</u>

General Revenues:

Payments from Primary Government
Unrestricted Grants and Contributions
Unrestricted Investment Earnings
Miscellaneous
Total General Revenues
Contributions to Permanent Funds
Change in Net Assets
Net Assets – July 1
Net Assets – June 30

Significant transactions between the major component units—Tennessee Board of Regents (TBR), University of Tennessee (UT) and the Tennessee Education Lottery Corporation (TELC)—and the primary government consist of the following:

State appropriations from the Education Fund in the amount of \$769.6 million were made to the TBR and \$517.2 million to the UT.

Capital project expenditures in the amount of \$131 million were made for the TBR and \$90 million to the UT in the form of expenditures in the capital projects fund for projects at these school systems.

The TBR paid the primary government \$42 million to reimburse the state for projects that were not a part of the capital appropriations.

The TELC generated net lottery proceeds of \$276 million for the State's Lottery for Education Account.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

Net (Expense) Revenue and Changes in Net Assets					
Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total
\$ 8,660	\$ (204)	\$ (564,293)	\$ (267,539)	\$ (72,613)	\$ 8,660 (204) (564,293) (267,539) (72,613)
8,660	(204)	(564,293)	(267,539)	(72,613)	(895,989)
		665,212	471,937	73,995	1,211,144
		142,702	797	20	143,519
129	211	7,066	17,325	165	24,896
		9,024			9,024
129	211	824,004	490,059	74,180	1,388,583
		7,253	37,060		44,313
8,789	7	266,964	259,580	1,567	536,907
509,973		2,185,532	2,235,294	110,938	5,041,737
\$ 518,762	\$ 7	\$ 2,452,496	\$ 2,494,874	\$ 112,505	\$ 5,578,644

The most significant transaction among component units is that in which the Tennessee State School Bond Authority, a nonmajor component unit, makes loans to the University of Tennessee and the Tennessee Board of Regents to finance certain capital projects. At June 30, 2010, the Authority's loan receivable (expressed in thousands) consisted of:

	Current	Noncurrent
Tennessee Board of Regents	\$ 16,551	\$ 510,022
University of Tennessee	17,077	528,079
Total	\$ 33,628	\$ 1,038,101

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

K. Major component units – long term debt

Tennessee Housing Development Agency (THDA)

Bonds Payable and Notes Payable at June 30, 2010, are shown below (expressed in thousands):

Mortgage finance program revenue bonds, homeownership program, and housing program finance bonds, various Series, .6% to 7.93%, due in amounts of principal and interest ranging from \$362.922 million in 2011 to \$305.1 million in 2041	\$ 2,322,679
Less: Unamortized bond refunding costs	(5,931)
Net Bonds Payable	\$ <u><u>2,316,748</u></u>
 Preserve Loan Program Note, 3% interest with principal maturing in December 2011 and August 2012	 \$ <u><u>3,672</u></u>

The revenue bonds and notes listed above are not obligations of the State. They are secured by pledge from the facilities to which they relate and by certain other revenues, fees and assets of the THDA.

Bond sales during the year ended June 30, 2010, included the following issues:

June 2010—Program bonds of \$74.71 million

On June 17, 2010, the agency issued \$74.71 million in Housing Finance Program Bonds, Issue 2010-A. The agency used \$20.595 million of these bonds to refund bonds.

Current Refundings

During the year ended June 30, 2010, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of \$10.695 million and in the Homeownership Program in the amount of \$168.625 million. The respective carrying values of the bonds were \$10.652 million and \$170.94 million. This resulted in an expense to the Mortgage Finance Program of \$43 thousand and in income to the Homeownership Program of \$2.315 million.

On June 17, 2010, the agency used \$20.595 million in Housing Program bonds, 2010-A, to refund bonds previously issued in the Homeownership Program (this amount consists of \$20.595 million early redemption.) The carrying amount of these bonds was \$20.479 million. The refunding resulted in a difference of \$116 thousand between the reacquisition price and the net carrying amount of the old debt. The refunding reduced the agency's debt service by \$5.9 million over the next 15 years, and the agency realized an economic gain (difference between present values of old and new debt service payments) of \$2.8 million.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

Debt Service requirements to maturity for revenue bonds payable at June 30, 2010, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds		Total Requirements
	Principal	Interest	
2011	\$ 269,962	\$ 92,960	\$ 362,922
2012	45,635	86,458	132,093
2013	42,210	84,986	127,196
2014	43,245	83,499	126,744
2015	44,640	81,861	126,501
2016-2020	197,848	381,358	579,206
2021-2025	249,383	336,647	586,030
2026-2030	273,457	270,967	544,424
2031-2035	270,933	208,491	479,424
2036-2040	585,366	97,301	682,667
2041	300,000	5,066	305,066
	<u>\$ 2,322,679</u>	<u>\$ 1,729,594</u>	<u>\$ 4,052,273</u>

The debt principal in the preceding table is \$5.931 million more than that presented in the accompanying financial statements. This amount, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

Notes Program

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provides for the issuance of agency drawdown notes with a maximum aggregate principal amount of \$65 million. On April 1, 1999, the Trust Indenture was supplemented providing for the maximum aggregate principal amount of \$200 million. On December 1, 2002, the Trust Indenture was supplemented to provide a maximum aggregate principal amount of \$450 million.

The notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety-nine percent (99%) of the bond equivalent yield as determined on the related rate date.

In October 2008, the Internal Revenue Service issued Notice 2008-88, amending Notice 2008-41. With an effective date of March 28, 2008, this notice provides temporary relief to issuers by allowing them to purchase their own bonds and commercial paper without causing an extinguishment of the debt for tax purposes. Therefore, on October 9, 2008, due to unstable credit markets, the agency purchased at par \$83.05 million of its Single Family Mortgage Notes Trust Indenture from Morgan Keegan. The agency is allowed to hold the outstanding notes through December 31, 2009, after which the notes will be available to reissue. However, in accordance with Financial Accounting Standards Board Statement No. 76, Paragraph 3, the outstanding notes are not recorded for financial reporting purposes.

Due to continuing unstable credit markets, on December 31, 2009, the Internal Revenue Service extended the amount of time the agency is allowed to hold its outstanding notes purchased from Morgan Keegan. The agency is allowed to hold the outstanding notes through December 31, 2010, after which the notes will be available to reissue.

On August 3, 2009, the agency borrowed \$500 thousand for the Preserve Loan Program, which is part of the Housing Trust Fund. Principal and interest are charged monthly with the principal maturing on August 4, 2012.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

The following table is a summary of the note activity for the year ended June 30, 2010 (expressed in thousands).

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$ 3,250	\$ 500	\$ 78	\$ 3,672

The \$3.672 million of notes outstanding at year end consist of Preserve Loan Program notes, \$3.25 million will mature on December 22, 2011, and \$500 thousand will mature on August 4, 2012. Interest rates are 3% and are charged quarterly for the \$3.25 million and monthly for the \$500 thousand.

L. Nonmajor component units – long term debt

Tennessee Local Development Authority (TLDA)

Bonds Payable and Notes Payable at June 30, 2010, are shown below (expressed in thousands):

Revenue bonds, 3.3% to 5%, due in generally decreasing amounts of principal and interest from \$5.58 million in 2011 to \$26 thousand in 2034	\$ 49,482
Less: Unamortized bond refunding costs	(1,240)
Net Bonds Payable	<u>\$ 48,242</u>
 Revenue bond anticipation notes, \$53.92 million at 2% due June 24, 2011	 \$ <u>53,919</u>

The revenue bonds and revenue bond anticipation notes listed above are not obligations of the State. They are secured by pledge of resources from the facilities to which they relate and by certain other revenues, fees and assets of the TLDA.

Debt Service requirements to maturity for TLDA's revenue bonds payable at June 30, 2010, are as follows (expressed in thousands):

<u>For the Year(s)</u> <u>Ended June 30</u>	<u>Revenue Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2011	\$ 3,592	\$ 1,988	\$ 5,580
2012	3,367	1,865	5,232
2013	3,247	1,740	4,987
2014	3,377	1,602	4,979
2015	3,306	1,459	4,765
2016-2020	12,208	5,337	17,545
2021-2025	8,727	3,624	12,351
2026-2030	9,504	1,764	11,268
2031-2034	2,154	128	2,282
	<u>\$ 49,482</u>	<u>\$ 19,507</u>	<u>\$ 68,989</u>

The above principal for revenue bonds does not reflect a \$1.24 million deduction from bonds payable for the deferred amount on refunding.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

Tennessee State School Bond Authority (TSSBA)

Bonds and Commercial Paper Payable at June 30, 2010, are shown below (expressed in thousands):

Revenue bonds, various Series, 0% to 5.66%, due in decreasing amounts of principal and interest from \$93.592 million in 2011 to \$2.137 million in 2039	\$ 1,093,370
Less: Unamortized bond refunding costs	(18,366)
Net Bonds Payable	<u>\$ 1,075,004</u>
Commercial paper, interest rates ranging from .15% to .55%, varying maturities	<u>\$ 281,782</u>

The revenue bonds and commercial paper listed above are not obligations of the State. They are secured by pledge of resources from the facilities to which they relate and by certain other revenues, fees and assets of the TSSBA.

On December 17, 2009, the authority issued 2009 Qualified School Construction Bonds ("2009 QSCB"). The 2009 QSCB proceeds in the amount of \$177 million were issued for the purposes of financing various qualifying QSCB projects and to pay the costs of issuance of the 2009 QSCBs.

Prior-Year Defeasance of Debt. In prior years, the authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the authority's financial statements. On June 30, 2010, \$210.01 million of bonds outstanding are considered defeased.

Debt Service requirements to maturity for TSSBA's revenue bonds payable at June 30, 2010, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Principal	Interest	Total Requirements
2011	\$ 56,518	\$ 37,074	\$ 93,592
2012	42,578	35,488	78,066
2013	42,253	33,929	76,182
2014	43,538	32,069	75,607
2015	50,353	30,331	80,684
2016-2020	235,588	125,944	361,532
2021-2025	199,426	79,836	279,262
2026-2030	322,646	38,793	361,439
2031-2035	73,750	14,460	88,210
2036-2039	26,720	1,948	28,668
	<u>\$ 1,093,370</u>	<u>\$ 429,872</u>	<u>\$ 1,523,242</u>

The above principal for revenue bonds is more than that presented on the accompanying financial statements by \$18.366 million, representing the deferred amount on bond refunding. This amount is the amount deducted from bonds payable in the accompanying financial statements but is included in the debt service schedule above.

Commercial Paper Program. The Tennessee State School Bond Authority issues short-term debt to finance certain capital projects for the State of Tennessee's higher education institutions. The maximum amount of principal may not exceed \$300 million. At June 30, 2010, \$139.55 million of tax-exempt and \$142.23 million of taxable commercial paper was outstanding.

The maturity of the paper may not exceed 270 days and the maximum interest rate may not exceed 12%. Interest rates vary ranging from .15% to .55% during the fiscal year. Upon maturity, the paper is remarketed by the

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
JUNE 30, 2010

commercial paper dealer, redeemed, or extinguished with long-term debt. The Commercial Paper bears interest at a variable rate that is paid upon maturity. The Commercial Paper liquidity provider, under a Credit Agreement, is State Street Bank and Trust Company with a termination date of March 30, 2014, subject to extension and earlier termination. The total available commitment is \$304.594 million. The obligation of State Street Bank and Trust Company is to purchase unremarketed Commercial Paper. Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

M. Component units – changes in long-term obligations

A summary of changes in long-term obligations for the year ended June 30, 2010, follows (expressed in thousands).

Changes In Long-Term Obligations

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue Bonds, Notes and Loans Payable:					
University of Tennessee (UT)					
Loans and Notes Payable	\$ 518,267	\$ 47,585	\$ (20,684)	\$ 545,168	\$ 22,311
Tennessee Board of Regents (TBR)					
Loans and Notes Payable	490,345	70,027	(22,978)	537,394	19,815
Tennessee Housing Development Agency (THDA) Bonds Payable	1,979,452	550,973	(207,746)	2,322,679	128,200
Less Deferred Amount on Refunding	(6,891)	(125)	1,085	(5,931)	
THDA Notes Payable	3,250	500	(78)	3,672	
Nonmajor Component Units Bonds, Notes, and Loans Payable	1,251,983	341,071	(108,470)	1,484,584	99,799
Less Deferred Amount on Refunding	(21,091)		1,199	(19,892)	
Total Revenue Bonds, Notes and Loans Payable	\$ 4,215,315	\$ 1,010,031	\$ (357,672)	\$ 4,867,674	\$ 270,125
UT Compensated Absences	73,655	47,115	(45,271)	75,499	45,271
UT Other Post Employment Benefits	38,809	16,450		55,259	
UT Due to Grantors, Deferred Revenue and Annuities Payable	57,509	1,751	(1,908)	57,352	
UT Capital Leases	2,007		(734)	1,273	680
TBR Compensated Absences	56,308	33,839	(32,776)	57,371	15,136
TBR Other Post Employment Benefits	51,438	17,750		69,188	
TBR Due to Grantors, Deferred Revenue and Other	20,948	4,458	(1,764)	23,642	
THDA Escrow Deposits, Arbitrage Rebate Payable, and Deferred Revenue	8,067	6,654	(5,196)	9,525	585
THDA Compensated Absences	1,072	117	(244)	945	494
THDA Other Post Employment Benefits	602	192		794	
Tennessee Education Lottery Corporation (TELC) Prizes Annuities Payable	2,532		(187)	2,345	104
TELC Compensated Absences	470	606	(543)	533	414
TELC Deferred Lease	736		(158)	578	61
Nonmajor Component Units Compensated Absences	1,246	1,039	(951)	1,334	650
Nonmajor Component Units Other Post Employment Benefits	297	40		337	
Component Units Long-Term Obligations	\$ 4,531,011	\$ 1,140,042	\$ (447,404)	\$ 5,223,649	\$ 333,520

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

The Tennessee State School Bond Authority, a nonmajor component unit, issues revenue bonds to make loans to higher education institutions in the State. The nonmajor component units' bonds payable includes the indebtedness on which the University of Tennessee and the Tennessee Board of Regents' loans payable are based.

The University of Tennessee component units are not included in the above schedule. At year end, University of Tennessee foundations' long-term liabilities amounted to \$105.818 million (\$1.645 million due within one year).

N. Endowments – component units

If a donor has not provided specific instructions to the University of Tennessee and the Tennessee Board of Regents institutions, state law permits each institution to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the institution is required to consider the institution's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The University of Tennessee chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the University, 5 percent of a three-year moving average of the fair value of endowment investments has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2010, net appreciation of \$52.309 million is available to be spent, of which \$51.32 million is restricted to specific purposes.

While some Tennessee Board of Regents institutions/foundations spend all investment income, others choose to spend only a portion of the investment income (including changes in the value of investments) each year. Under the various spending plans established by each institution/foundation, different percentages and/or amounts have been authorized for expenditure. The remaining amounts, if any, are retained to be used in future years when the amounts computed using the spending plans exceed the investment income. At June 30, 2010, net appreciation of \$9.713 million is available to be spent, of which \$9.542 million is restricted to specific purposes.

NOTE 6 – Other information

A. Risk management

1. Teacher Group Insurance - The Teacher Group Insurance Fund, a public entity risk pool, was established in January 1986 to provide a program of health insurance coverage for the teachers and other education system employees of the political subdivisions of the State. In accordance with Tennessee Code Annotated 8-27-302 all local education agencies are eligible to participate. Fund members at June 30, 2010, included 124 local education agencies and two education cooperatives, with 50,550 active teachers and support personnel enrolled in one of three health care options: preferred provider organization plan (PPO), point of service plan (POS), or a health maintenance organization (HMO). The State does not retain any risk for losses by this fund.

The Teacher Group Insurance Fund assumes responsibility for: determining plan benefits and eligibility, establishing premiums sufficient to fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, processing of claims submitted for services provided to plan participants, communicating with plan participants, and complying with appropriate state and federal laws and regulations. Plan participants are required to: pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and ensure that only eligible expenses are paid by the plan. Individuals who cancel coverage may be required to demonstrate a qualifying event to rejoin the plan. Employers must wait twenty-four months before rejoining the plan should the employer elect to withdraw from the plan. In the case of individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

The Teacher Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Teachers and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Teacher Group Insurance Fund considers investment income in determining if a premium deficiency exists.

The Teacher Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Rosa L. Parks Avenue, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 532-5823.

As discussed above, the Teacher Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	<u>2010</u>	<u>2009</u>
Unpaid Claims at Beginning of Year	\$ 28,257	\$ 27,201
Incurred Claims:		
Provision for insured events of the current year	383,088	387,693
Increase (decrease) in provision for insured events of prior years	<u>(896)</u>	<u>1,755</u>
Total Incurred Claims Expenses	<u>382,192</u>	<u>389,448</u>
Payments:		
Claims attributable to insured events of the current year	352,408	359,437
Claims attributable to insured events of prior years	<u>27,360</u>	<u>28,955</u>
Total Payments	<u>379,768</u>	<u>388,392</u>
Total Unpaid Claims at End of the Year	<u>\$ 30,681</u>	<u>\$ 28,257</u>

2. Local Government Group Insurance - The Local Government Group Insurance Fund, a public entity risk pool, was established in July 1991 to provide a program of health insurance coverage for employees of local governments and quasi-governmental organizations that were established for the primary purpose of providing services for or on the behalf of state and local governments. In accordance with Tennessee Code Annotated 8-27-207 all local governments and quasi-governmental organizations described above are eligible to participate. Fund members at June 30, 2010, included 34 counties, 79 municipalities and 247 quasi-governmental organizations, with 12,936 active employees maintaining coverage through one of four options: preferred provider plan, PPO limited plan, point of service plan, or a health maintenance organization. The State does not retain any risk for losses by this fund.

The Local Government Group Insurance Fund assumes responsibility for: determining plan benefits and eligibility, establishing premiums sufficient to fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, the processing of claims submitted for services provided to plan participants, communicating with plan participants, and complying with appropriate state and

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

federal laws and regulations. Plan participants are required to: pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and ensure that only eligible expenses are paid by the plan. Individuals who cancel coverage may be required to demonstrate a qualifying event to rejoin the plan. Employers must wait twenty-four months before rejoining the plan should the employer elect to withdraw from the plan. In the case of individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

The Local Government Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Local Government Group Insurance Fund considers investment income in determining if a premium deficiency exists.

The Local Government Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Rosa L. Parks Avenue, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 532-5823.

As discussed above, the Local Government Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	<u>2010</u>	<u>2009</u>
Unpaid Claims at Beginning of Year	\$ 7,427	\$ 5,832
Incurred Claims:		
Provision for insured events of the current year	105,944	96,377
Increase (decrease) in provision for insured events of prior years	<u>(201)</u>	<u>1,192</u>
Total Incurred Claims Expenses	<u>105,743</u>	<u>97,569</u>
Payments:		
Claims attributable to insured events of the current year	98,228	88,950
Claims attributable to insured events of prior years	<u>7,226</u>	<u>7,024</u>
Total Payments	<u>105,454</u>	<u>95,974</u>
Total Unpaid Claims at End of the Year	<u>\$ 7,716</u>	<u>\$ 7,427</u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

3. **Risk Management** - It is the policy of the State not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice and workers' compensation. The State's management believes it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The State purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the State's officials and employees. The RMF is also responsible for claims for damages to state owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from \$25,000 per occurrence to an aggregate of \$5 million. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. All agencies and authorities of the State participate in RMF, except for the Dairy Promotion Board and the Certified Cotton Growers' Organization (a component unit). The Tennessee Education Lottery Corporation (a component unit) participates in the RMF for general liability purposes but is responsible for its own workers' compensation coverage. RMF allocates the cost of providing claims servicing and claims payment by charging a premium to each agency based on a percentage of each organization's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the State as a whole.

RMF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process does not result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, such as salvage or subrogation, are another component of the claims liability estimate. At June 30, 2010, the present value of the casualty liability as actuarially determined was \$84.577 million (discounted at 2.5%). Changes in the balances of claims liabilities during fiscal years 2009 and 2010 were as follows (expressed in thousands):

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Advance of Insurance Proceeds	Balance at Fiscal Year-End
2009-2010 \$	93,156	\$ 41,086	\$ (32,612)	\$ 5,000	\$ 106,630
2008-2009 \$	92,877	\$ 30,129	\$ (29,850)		\$ 93,156

At June 30, 2010, RMF held \$114.5 million in cash and cash equivalents designated for payment of these claims.

4. **Employee Group Insurance** - The Employee Group Insurance Fund, an entity other than a pool, was established in 1979 to provide a program of health insurance coverage for the employees of the State with the risk retained by the State, therefore it is accounted for as an Internal Service Fund. In accordance with Tennessee Code Annotated 8-27-201 all state employees and former employees with work related injuries are eligible to participate. Fund members at June 30, 2010, included 66,233 active employees enrolled in one of three options: preferred provider organization plan (PPO), point of service plan (POS), or health maintenance organization (HMO).

The Employee Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Employee Group Insurance Fund considers investment income in determining if a premium deficiency exists.

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As discussed above, the Employee Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	<u>2010</u>	<u>2009</u>
Unpaid Claims at Beginning of Year	\$ 47,768	\$ 51,968
Incurred Claims:		
Provision for insured events of the current year	672,642	654,939
Increase (decrease) in provision for insured events of prior years	<u>(1,760)</u>	<u>(5,506)</u>
Total Incurred Claims Expenses	<u>670,882</u>	<u>649,433</u>
Payments:		
Claims attributable to insured events of the current year	622,502	607,171
Claims attributable to insured events of prior years	<u>46,009</u>	<u>46,462</u>
Total Payments	<u>668,511</u>	<u>653,633</u>
Total Unpaid Claims at End of the Year	<u>\$ 50,139</u>	<u>\$ 47,768</u>

5. Component Unit—AccessTN – The AccessTN insurance fund, a public-entity risk pool, was established in 2006 to provide health insurance options for the state’s uninsured. In accordance with Tennessee Code Annotated 56-7-2901, the target population is those Tennessean residents unable to obtain health insurance because of their health conditions. Enrollment began on April 1, 2007, and at June 30, 2010, the plan had 3,872 participants. Three plans exist with deductibles of \$1,000, \$3,000, and \$5,000. The benefit plans are based on PPO plans with an 80% in-network benefit and 60% out-of-network benefit and modeled after the state employee plans. The State does not retain any risk for losses by this fund.

This insurance fund provides health care financing based in part upon member premiums, and uses traditional insurance components, including deductibles, co-insurance, pre-existing conditions exclusion periods, and benefit limits to moderate medical claims to a level which can be supported by an affordable premium. The State’s enabling statute provides for an assessment on insurers, third-party administrators, and other insurance arrangements. The latest assessment for AccessTN is projected following the end of fiscal year 2010, approximately September 13, 2010. Based upon actuarial medical claims projections, AccessTN has adequate funding established by state appropriations to conduct operations through that period. Investment income is considered for premium deficiency calculations.

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The following represents changes in those aggregate liabilities during the current year (expressed in thousands):

	<u>2010</u>	<u>2009</u>
Unpaid Claims at Beginning of Year	\$ 6,166	\$ 5,696
Incurred Claims:		
Provision for insured events of the current year	42,814	43,976
Increase (decrease) in provision for insured events of prior years	<u>(1,371)</u>	<u>(1,275)</u>
Total Incurred Claims Expenses	<u>41,443</u>	<u>42,701</u>
Payments:		
Claims attributable to insured events of the current year	39,086	37,841
Claims attributable to insured events of prior years	<u>4,792</u>	<u>4,390</u>
Total Payments	<u>43,878</u>	<u>42,231</u>
Total Unpaid Claims at End of the Year	<u>\$ 3,731</u>	<u>\$ 6,166</u>

B. Related organizations

The State's officials are also responsible for appointing the members of the boards of other organizations, but the State's accountability for these organizations does not extend beyond making appointments. The State appoints the board members of the Beech River Watershed Development Authority, Carroll County Watershed Authority, Watkins Institute Commission, Tennessee Alliance for Fitness and Health, Tennessee Insurance Guaranty Association, Tennessee Life and Health Insurance Guaranty Association, Tennessee Sports Hall of Fame, Local Neighborhood Development Corporations, Tennessee Holocaust Commission, Inc., and the Tennessee Automobile Insurance Plan.

C. Jointly governed organizations

The State in conjunction with 37 other states and Puerto Rico are members of the Pest Control Compact.

The State in conjunction with 12 other states is a member of the Southern Growth Policies Board. Tennessee paid \$44,586 in fiscal year 2010 for membership dues.

The Southern Regional Education Compact was entered into with 15 other states. Tennessee paid \$21,000 in fiscal year 2010 for membership dues.

The Compact for Education was entered into with 48 other states, plus Puerto Rico, the Virgin Islands, American Samoa and the District of Columbia. Tennessee paid \$77,300 in fiscal year 2010 for membership dues.

The Interstate Mining Compact has 19 member states, including Tennessee. Tennessee paid \$18,131 in fiscal year 2010 for membership dues.

The Southern States Nuclear Compact is comprised of 16 member states, including Tennessee, plus Puerto Rico and the Virgin Islands. Tennessee paid \$34,267 in fiscal year 2010 for membership dues.

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The Southeast Interstate Low Level Radioactive Waste Compact has 6 member states, including Tennessee.

The Interstate Insurance Product Regulation Commission is comprised of 35 member states and Puerto Rico.

The Interstate Compact for Juveniles is comprised of 41 member states, including Tennessee.

The Interstate Compact for Supervision of Adult Offenders is comprised of all 50 states, plus the District of Columbia, Puerto Rico and the Virgin Islands.

D. Joint ventures

The State is a participant in a joint venture, the Tennessee-Tombigbee Waterway Development Compact, with the states of Alabama, Kentucky and Mississippi. The purpose of this compact is to promote the development of a navigable waterway connecting the Tennessee and Tombigbee Rivers and provide a nine foot navigable channel. The fiscal year end of the Tennessee-Tombigbee Waterway is December 31. Financial statements for the Tennessee-Tombigbee Waterway may be obtained at: P.O. Drawer 671, Columbus, MS 39703.

Presented below is summary financial data for this joint venture (expressed in thousands):

	2009	2008
Current Assets	\$ 193	\$ 198
Capital Assets, less depreciation	<u>362</u>	<u>365</u>
Total Assets	<u>555</u>	<u>563</u>
Total Liabilities	347	364
Net Assets	<u>208</u>	<u>199</u>
Total Liabilities and Net Assets	<u><u>555</u></u>	<u><u>563</u></u>
Revenues	383	404
Expenditures	<u>374</u>	<u>394</u>
Excess of Revenues over Expenditures	9	10
Beginning Net Assets	199	189
Ending Net Assets	<u><u>\$ 208</u></u>	<u><u>\$ 199</u></u>

E. Other postemployment benefits (OPEB)

Employer

Plan Description

The State of Tennessee administers and participates in the Employee Group Plan and the Medicare Supplement Plan for retired employees' healthcare benefits. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-201 for the state plan and TCA 8-27-701 for the Medicare Supplement Plan. Prior to reaching the age of 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits.

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Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy.

Special Funding Situation

The state is legally responsible for contributions to the Teacher Group and Medicare Supplement Plans that cover the retirees of other governmental entities. The state provides a subsidy for retired teachers in each plan. The state is not the sole "employer" contributor in the Teacher Group Plan since some Local Education Agencies provide a level of support. However, the state is the sole contributor for the teachers that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Retired employees who have not reached the age of 65 pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80 percent; 25 years, 70 percent; and 20 years, 60 percent. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive \$50 per month; 25 years, \$37.50; and 20 years, \$25.

Annual OPEB Cost and Net OPEB Obligation—Primary Government
(expressed in thousands)

	Employee Group Plan	Teacher Group Plan (State Share)	Medicare Supplement Plan	
			State	Teachers
Annual required contribution	\$ 102,309	\$ 24,601	\$ 15,554	\$ 11,517
Interest on the net OPEB obligation	6,920	915	936	590
Adjustment to the ARC	(6,555)	(867)	(886)	(559)
Annual OPEB cost	102,674	24,649	15,604	11,548
Amount of contribution	(35,997)	(17,004)	(5,019)	(3,857)
Increase in net OPEB obligation	66,677	7,645	10,585	7,691
Net OPEB obligation				
—beginning of year	153,781	20,332	20,789	13,113
Net OPEB obligation				
—end of year	\$ 220,458	\$ 27,977	\$ 31,374	\$ 20,804

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<u>Year End</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year End</u>
6/30/2008	Employee Group	\$ 117,244	34.00%	\$ 77,383
6/30/2009	Employee Group	118,812	35.70%	153,781
6/30/2010	Employee Group	102,674	35.05%	220,458
6/30/2008	Teacher Group (State Share)	25,579	59.60%	10,335
6/30/2009	Teacher Group (State Share)	25,914	61.42%	20,332
6/30/2010	Teacher Group (State Share)	24,649	68.98%	27,977
6/30/2008	Medicare Supp State	14,900	30.21%	10,399
6/30/2009	Medicare Supp State	15,164	31.48%	20,789
6/30/2010	Medicare Supp State	15,604	32.16%	31,374
6/30/2008	Medicare Supp Teachers	10,064	35.12%	6,530
6/29/2009	Medicare Supp Teachers	10,252	35.79%	13,113
6/30/2010	Medicare Supp Teachers	11,548	33.39%	20,804

Annual OPEB Cost and Net OPEB Obligation—Component Units
(expressed in thousands)

	<u>Employee Group Plan</u>
Annual required contribution	\$ 58,304
Interest on the net OPEB obligation	4,094
Adjustment to the ARC	(3,877)
Annual OPEB cost	58,521
Amount of contribution	(23,156)
Increase in net OPEB obligation	35,365
Net OPEB obligation	
—beginning of year	90,971
Net OPEB obligation	
—end of year	\$ 126,336

<u>Year End</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year End</u>
6/30/2008	Employee Group	\$ 70,128	34%	\$ 46,258
6/30/2009	Employee Group	71,023	37%	90,971
6/30/2010	Employee Group	58,521	40%	126,336

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Funded Status and Funding Progress

The funded status of the plans as of July 1, 2009, was as follows (expressed in thousands):

Primary Government

	<u>Employee Group Plan</u>	<u>Teacher Group Plan (State Share)</u>	<u>Medicare Supplement Plan</u>	
			<u>State</u>	<u>Teachers</u>
Actuarial valuation date	7/1/2009	7/1/2009	7/1/2009	7/1/2009
Actuarial accrued liability (AAL)	\$ 1,104,073	\$ 240,910	\$ 209,622	\$ 158,789
Actuarial value of plan assets				
Unfunded actuarial accrued liability (UAAL)	\$ <u>1,104,073</u>	\$ <u>240,910</u>	\$ <u>209,622</u>	\$ <u>158,789</u>
Actuarial Value of Assets as a % of the AAL	0.00%	0.00%	0.00%	0.00%
Covered payroll (active plan members)	\$ 1,729,937	N/A	N/A	N/A
UAAL as a percentage of covered payroll	63.82%	N/A	N/A	N/A

Covered payroll is N/A for the Teacher Group as the state does not have any payroll information for the participants. The state is assuming a liability because of a special funding situation that exists between the state and the Teacher Group Plan. Covered payroll for the Medicare Supplement plan is N/A as this plan only has retirees enrolled.

Component Units

	<u>Employee Group Plan</u>
Actuarial valuation date	7/1/2009
Actuarial accrued liability (AAL)	\$ 577,744
Actuarial value of plan assets	
Unfunded actuarial accrued liability (UAAL)	\$ <u>577,744</u>
Actuarial Value of Assets as a % of the AAL	0.00%
Covered payroll (active plan members)	\$1,371,949
UAAL as a percentage of covered payroll	42.11%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions

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used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2009, actuarial valuation for each plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6 percent in fiscal year 2010 for the employee Group plan, 4 percent for the Local Education plan and 1 percent for the Medicare Supplement plan. In all plans, the rate increased to 10 percent in fiscal year 2011, and then reduced by decrements to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007.

Plan

Healthcare is the only “other postemployment benefit” (OPEB) provided to employees. The following plans, administered by the State, are reported as Agency Funds and are financially independent.

Beginning in the fiscal year ending June 30, 2008, each participating employer is required by GASB Statement 45, *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions*, to disclose additional information with regard to funding policy, the employer’s annual OPEB cost and contributions made, the funded status and funding progress of the employer’s individual plan, and actuarial methods and assumptions used.

1. Retiree Health Plan—State Plan

- a. Plan description—State and higher education retired employees participate in the State Employee Group Insurance Plan. For accounting and financial reporting purposes, the balances and transactions for these retirees have been removed from the State Employee Group Insurance Plan internal service fund and reported in an agency fund. The Employee Group Insurance Plan is a cost-sharing, multiple-employer defined benefit health insurance plan. Approximately 64 employers contribute to the plan.

All retired employees and disability participants of the primary government and component units, who are eligible and choose coverage, are included in this plan. Retirees and disability participants prior to the age of 65 participate in this plan. At June 30, 2010, there were 7,919 retirees and disabled participants enrolled in one of three options: preferred provider organization plan (PPO), point of service (POS), or health maintenance organization (HMO). The State insurance committee establishes premiums annually.

- b. Summary of significant accounting policies—Premiums are recognized when due and benefits are paid when incurred using the accrual basis of accounting. Premium refunds reduce premium revenue and claims recoveries reduce claims expense.
- c. Contributions and reserves—An insurance committee created in accordance with Tennessee Code Annotated (TCA) 8-27-201, establishes the contributions to the plan by member employers and employees. Both active and pre-age 65 retired members of the Employee Group Insurance Plan pay the same premium rate. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Retiree premiums are based on years of service; therefore, retirees with 30 years of service are subsidized 80 percent; 25 years, 70 percent; and 20 years, 60 percent. This plan is funded on a pay-as-you-go basis.

2. Retiree Health Plan—LEA Plan

- a. Plan description—Retired teachers participate in the Teacher Group Insurance Plan. For accounting and financial reporting purposes, the balances and transactions for these retirees have been removed from the Teacher Group Insurance Plan enterprise fund and reported in an agency fund. The Teacher Group Insurance Plan is a cost-sharing, multiple-employer defined benefit health insurance plan that is

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considered to be an agent multiple-employer plan for accounting purposes. Approximately 125 local education agencies and two education cooperatives participate in the plan.

All retired teachers and disability participants of the local education agencies, who are eligible and choose coverage, are included in this plan. Retirees and disability participants prior to the age of 65 participate in this plan. At June 30, 2010, there were 5,733 retirees and disability participants enrolled in one of three options: preferred provider organization plan (PPO), point of service (POS), or health maintenance organization (HMO). The insurance committee establishes premiums annually.

- b. Summary of significant accounting policies—Premiums are recognized when due and benefits are paid when incurred using the accrual basis of accounting. Premium refunds reduce premium revenue and claims recoveries reduce claims expense.
- c. Contributions and reserves—An insurance committee created in accordance with Tennessee Code Annotated (TCA) 8-27-302, establishes the contributions to the plan by member employers and employees. Both active and pre-age 65 retired members of the Teacher Group Insurance Plan pay the same premium rate. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Not all employers contribute to retirees' healthcare premiums. Those employers who do contribute to the retirees' premiums primarily do so based on years of service. This plan is funded on a pay-as-you-go basis.

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3. Retiree Health Plan—Local Plan

- a. Plan description—Local government retired employees participate in the Local Government Group Insurance Plan. For accounting and financial reporting purposes, the balances and transactions for these retirees have been removed from the Local Government Group Insurance Plan enterprise fund and reported in an agency fund. The Local Government Group Insurance Plan is a cost-sharing, multiple-employer plan that is considered to be an agent multiple-employer plan for accounting purposes. Approximately 43 counties, 75 municipalities, and 244 quasi-governmental organizations participate in the plan.

All retired employees and disability participants of the local governments, who are eligible and choose coverage, are included in this plan. Retirees and disability participants prior to the age of 65 participate in this plan. At June 30, 2010, there were 319 retirees and disability participants enrolled in one of three options: preferred provider organizations plan (PPO), point of service (POS), or health maintenance organization (HMO). The insurance committee establishes premiums annually.

- b. Summary of significant accounting policies—Premiums are recognized when due and benefits are paid when incurred using the accrual basis of accounting. Premium refunds reduce premium revenue and claims recoveries reduce claims expense.
- c. Contributions and reserves—An insurance committee created in accordance with Tennessee Code Annotated (TCA) 8-27-207, establishes the contributions to the plan by member employers and employees. Both active and pre-age 65 retired members of the Teacher Group Insurance Plan pay the same premium rate. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Not all employers contribute to retirees' healthcare premiums. Those employers who do contribute to the retirees' premiums primarily do so based on years of service. This plan is funded on a pay-as you-go basis.

4. Retiree Health Plan—Medicare Supplement

- a. Plan description—Post-65 retired employees of the state, higher education, local education agencies, and certain local governments may participate in the Medicare Supplement Insurance Plan. This plan is reported in an agency fund. Prior to July 1, 2006, this plan was reported as an enterprise fund. The Medicare Supplement Plan is a cost-sharing, multiple-employer defined benefit health insurance plan that is considered to be an agent multiple-employer plan for accounting purposes. Employers who participate in the State Plan, LEA Plan, and Local Plan may participate in this plan. All retired employees who are Medicare eligible, by virtue of age and receive a retirement benefit from the Tennessee Consolidated Retirement System, and choose coverage, are included in this plan. At June 30, 2010, there were 27,613 retirees and disabled members enrolled. The State insurance committee establishes premiums annually.
- b. Summary of significant accounting policies—Premiums are recognized when due and benefits are paid when incurred using the accrual basis of accounting. Premium refunds reduce premium revenue and claims recoveries reduce claims expense.
- c. Contributions and reserves—In accordance with Tennessee Coded Annotated 8-27-701, the state insurance committee establishes the contributions to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Not all employers contribute to retirees' healthcare premiums. Employers contribute a fixed amount to retirees' premiums based on years of service; therefore, retirees with 30 years of service are subsidized \$50 per month; 25 years, \$37.50; and 20 years, \$25. This plan is funded on a pay-as-you-go basis.

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5. Cobra—Federal law requires large employers to continue health insurance benefits to employees who have terminated employment for up to 18 months. The former employees must pay 102 percent of the total premium (employee plus employer share), funded on a pay-as-you-go basis. Insurance coverage is not mandatory if the former employee is eligible for Medicare or has coverage with another group medical plan. The State covered an average of 626 former employees during fiscal year 2009-2010, and the State Plan paid approximately \$5.5 million in benefits to this group.

F. Pension plans

1. State Defined Benefit Plan - The State of Tennessee contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS) and consisting of 140 participating employers. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979, are vested after five years of service. Members joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established by state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent; a COLA of one percent will be granted if the CPI increases between one-half percent and one percent; the maximum annual COLA is capped at three percent.

Plan member contributions are recognized in the period of time for which the contributions are assessed. Plan employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Most plan members are noncontributory. The State of Tennessee is required to contribute at an actuarially determined rate. The current rate is 13.02% of annual covered payroll. The contribution requirements of the State of Tennessee are established and may be amended by the TCRS Board of Trustees. The State's contributions to TCRS for the years ending June 30, 2010, 2009, and 2008, were \$578.404 million, \$583.985 million, and \$593.412 million respectively, equal to the required contributions for each year.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the TCRS website at www.treasury.tn.gov/TCRS/ or by calling (615) 741-7063.

2. Political Subdivision Defined Benefits Plan - TCRS administers the Political Subdivision Pension Plan (PSPP), which is an agent multiple-employer defined benefit pension plan that covers employees of 482 participating political subdivisions. The PSPP provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979, are vested after four years of service.

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Members joining on or after July 1, 1979, are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Benefit provisions are established and amended by state statute. Cost of living adjustments (COLA) are the same as provided by SETHEPP except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a non-compounding basis rather than the compounded basis applicable under SETHEPP. Pursuant to Article Two, Section 24 of the Constitution of the State of Tennessee, the State cannot mandate costs on local governments. Any benefit improvement may be adopted by the governing body of a governmental entity participating in the TCRS.

Plan member contributions are recognized in the period of time for which the contributions are assessed. Plan employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPP. The PSPP report is available on the TCRS website at www.treasury.tn.gov/TCRS/ or by calling (615) 741-7063.

3. Defined Contribution Plan - The Optional Retirement Plan (ORP) as administered by the Tennessee Treasury Department is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 35, Part 4 of the TCA. This statute also sets out the plan provisions. State statutes are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff of the Tennessee Board of Regents institutions and the University of Tennessee system who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Plan members are noncontributory. The State of Tennessee contributes 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. The required contributions made by the State of Tennessee to the ORP were \$83.9 million for the year ended June 30, 2010.

Members are immediately 100 percent vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products in which members are responsible for selecting how the contributions are invested. Each member makes the decision when to reallocate future contributions or when to transfer funds from one investment product to another. Funds are held by the investment vendor in the name of the member, not in the name of the State of Tennessee. The State of Tennessee has no discretion over these funds other than to make the initial contributions. Accordingly, the State of Tennessee is not acting in a trustee capacity nor does it have a fiduciary responsibility for the funds held by the investment vendors.

4. Deferred Compensation - The State offers its employees two deferred compensation plans, one established pursuant to IRC Section 457 and the other pursuant to IRC Section 401(k). All costs of administering and funding these programs are the responsibility of plan participants.

The Section 401(k) and Section 457 plan assets remain the property of the contributing employees, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution and withdrawal provisions for the plans. During the year ended June 30, 2010, contributions totaling \$139.7 million were made to the plans.

G. Investment pool

The State Pooled Investment Fund (SPIF) is an external investment pool sponsored by the State of Tennessee. The external portion of SPIF is the Local Government Investment Pool (LGIP) and is reported as a separate investment trust fund. The internal portion, consisting of funds belonging to the State and its component units, has been included in the various funds and component units.

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A copy of the SPIF report can be obtained by writing Tennessee Treasury Department, Accounting Division, 9th Floor Andrew Jackson Building, Nashville, TN 37243-0231 or by calling (615) 741-7063.

H. Loan guarantees

The Tennessee Student Assistance Corporation (TSAC), a component unit, operates the Guaranteed Student Loans Program. The U. S. Department of Education (USDE) reinsures a majority of the student loans for at least 75% of their principal amounts. At June 30, 2010, TSAC was guarantor of \$4.456 billion in student loans. TSAC has minimal obligation under these student loan guarantees in the event of default.

I. Nashville correctional facilities revenue bonds

In June 1991, revenue bonds were issued by the Metropolitan Government of Nashville that were refunded in February 2002. The refunding bonds have an outstanding balance at June 30, 2010, of \$3.87 million. These bonds are obligations of the Metropolitan Government of Nashville. The State is committed to pay Nashville for the housing of locally sentenced inmates, including debt service on the bonds.

J. Contingencies

1. Litigation

The State is a defendant in multiple legal proceedings. Included in these claims are cases associated with the legality and compliance of the policies and practices of the State's Medicaid agency.

The State is also involved in other litigating matters that include claims which normally recur in governmental operations. Some of these lawsuits, including the ones referred to above, may have a future budgetary programmatic impact. They will be addressed in future budgets. Other potential losses resulting from unfavorable verdicts in legal proceedings are estimated to cost the State approximately \$204 million.

2. Tobacco settlement

In November 1998, Tennessee joined 45 other states, the District of Columbia and five territories in a settlement agreement against the nation's largest tobacco manufacturers, to seek redress against the tobacco companies for violations of state consumer and antitrust laws. The Master Settlement Agreement (MSA) includes base payments to all states and territories through 2025, and continues in perpetuity. Tennessee's share of the base payments was originally projected at \$4.8 billion through the year 2025. Since the agreement is complex, the annual payments have, and will continue to be, subject to a number of adjustments including inflation, volume, previously settled states and non-participating manufacturers. Some of these adjustments, such as the inflation adjustment, result in the State receiving higher payments. Other factors, such as volume adjustment and the market share adjustment can work to reduce annual payments. The non-participating manufacturers' adjustment is currently the subject of dispute, and some of the sums related to it are being withheld from the payments to the States. Furthermore, there is a possibility that additional amounts, which were paid in previous years, could be subject to refund as a result of these ongoing disputes. These refunds could reduce future payments received by some of the MSA participants. Third party lawsuits may also affect future payments. The net effect of these adjustments on future payments is unclear.

3. Pollution Remediation Obligations

The State implemented GASB Statement No. 49 which provides guidance on estimating and reporting pollution remediation obligations. A pollution remediation obligation is a liability to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments, site cleanups, and postremediation monitoring. The recognition of pollution remediation obligation is required when any of the following obligating events occur:

- The State is compelled to take remediation action because of imminent danger to the public;
- The State is in violation of pollution related permit or license;
- The State is identified as a responsible party or potentially responsible party by a regulator;

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2010

- The State is named or has evidence that it will be named in a lawsuit; or
- The State commences or legally obligates itself to commence pollution remediation activities.

The pollution remediation obligation is an estimate and this estimate is subject to change resulting from price increases or decreases, changes in technology, or changes in legal or regulatory requirements. In addition, recoveries from other responsible parties can reduce the State's obligation. Several agencies within state government have programs to investigate and oversee remediation activities. These program personnel have the expertise to estimate the remediation obligations based on prior experience with similar remediation activities. These obligations are measured at current value using the expected cash flow technique. In addition, historical data is used in the estimation process for common sites with which the State has experience.

The State's pollution remediation obligations are primarily from chemical, fuel, and asbestos contamination. These obligations are the result of violations of various federal and state environmental laws.

During the fiscal year, the State spent \$4.2 million for remediation activities and had an expected recovery of \$1.6 million from responsible parties. At June 30, 2010, the State had a pollution remediation obligation of \$116.2 million and an estimated potential recovery of \$5.9 million from other responsible parties.

4. Federal grants

The State receives significant financial assistance from the federal government in the form of grants and entitlements. The receipt of federal grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations. Substantially, all federal grants are subject to either federal single audits or financial and compliance audits by grantor agencies or their representatives. Questioned costs as a result of these audits may become disallowances after the appropriate review of federal agencies. Material disallowances are recognized as fund liabilities when the loss becomes probable and reasonably estimable.

K. Subsequent events

Primary Government

Subsequent to June 30, the State issued \$110 million in general obligation commercial paper. Also, in October 2010, the State issued 2010 Series A tax-exempt general obligation bonds in the amount of \$186.5 million at a premium of \$12.9 million and 2010 Series B taxable general obligation bonds in the amount of \$44.9 million at a premium of \$2.2 million. The Series A issuance was used to redeem commercial paper and to finance the purchase of capital assets and the Series B issuance was used to refund a portion of 2003 Series B tax-exempt general obligation bonds.

Component Units

Subsequent to June 30, Tennessee Housing Development Agency (THDA) had the following revenue bond issuances: (2010-1) in October 2010 in the amount of \$120.7 million, (2010-B) in November 2010 in the amount of \$40 million, and the (2009-B, Subseries B-2) in November 2010 in the amount of \$60 million. In January 2011, the THDA Board of Directors authorized the issuance of (2011-A) for an amount not to exceed \$40 million and (2009-B) for an amount not to exceed \$60 million. The agency used mortgage prepayments, foreclosures proceeds, and note proceeds to redeem \$78.7 million of outstanding bonds in July 2010, \$51.8 million in October 2010, \$99.8 million in November 2010, and \$43.8 million in January 2011.

Subsequent to June 30, the Tennessee State School Bond Authority (TSSBA) issued \$77.2 million in commercial paper. In September 2010, TSSBA issued 2010 Series A tax-exempt bonds in the amount of \$213.9 and 2010 Series B taxable bonds in the amount of \$18 million. Also, in October 2010, TSSBA issued \$212.4 million in Qualified School Construction Bonds (QSCB). The 2010 Series A and B were used to redeem commercial paper and finance new construction projects, and the QSCB proceeds were used by K-12 schools for renovation and rehabilitation projects, equipment purchases, new building construction, and land acquisition.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
JUNE 30, 2010

Subsequent to June 30, the Metropolitan Government of Nashville and Davidson County notified the Tennessee Local Development Authority (TLDA) of its intention to defease its current TLDA outstanding debt. As of December 2010, \$38.5 million in long-term debt and \$53 million in bond anticipation notes were defeased.

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION (RSI)

Infrastructure Assets Reported Using the Modified Approach

ROADWAYS

Measurement Scale

The state uses a Maintenance Rating Index (MRI) that addresses all elements of the roadway system. A statistical sample of randomly selected highway segments, representative of the entire subsystem, is inspected annually and rated in accordance with the MRI criteria. The following elements are rated: traveled pavement; shoulders; various roadside elements such as debris, grass height, slope erosion, and fencing; drainage elements such as culverts, cross drain pipes, and drain inlets; and traffic services such as signage, pavement markings, and guardrails. The MRI is a numerical score from 1 to 100, with 100 being a perfect score. The average MRI of all the rated segments is the reported condition level.

Established Condition Level

The state intends to maintain roadways so that the reported condition level each year does not fall below 75.

Assessed Conditions

The following table presents the average MRI of all rated segments.

<u>For the Period Ended</u>	<u>Maintenance Rating Index</u>
June 30, 2010	89.40
June 30, 2009	89.60
June 30, 2008	89.20

BRIDGES

Measurement Scale

The state maintains information on its 8,163 bridges in compliance with the National Bridge Inventory (NBI) guidelines established by the Federal Highway Administration. Bridges are inspected at least once every two years and the results are coded on a 0 to 9 scale (with 9 being the most desirable). A bridge coded 4 or less for its deck, superstructure, or substructure, or coded 2 or less for its structural evaluation or waterway adequacy, is classified as “structurally deficient.” A structurally deficient bridge is inadequate to carry legal loads, whether caused by structural deterioration, obsolete design standards, or an insufficient waterway opening. A bridge coded 3 or less for its structural evaluation, deck geometry, vertical or horizontal underclearance, water adequacy, or approach roadway alignment is classified as “functionally obsolete.” A functionally obsolete bridge cannot properly accommodate the current traffic.

Established Condition Level

The state intends to maintain bridges so that 75 percent or more of the total deck area is not classified as structurally deficient or functionally obsolete.

Assessed Conditions

The following table presents the percentage of deck area whose condition assessment did not meet the criteria of structurally deficient or functionally obsolete according to the NBI.

<u>For the Two-Year Period Ended</u>	<u>Percentage of Deck Area Not Structurally Deficient or Functionally Obsolete</u>
June 30, 2010	82.00%
June 30, 2008	81.00%
June 30, 2006	85.80%

STATE OF TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION (RSI)
(Continued)

ESTIMATED AND ACTUAL COSTS TO MAINTAIN

The following table presents the state's estimate of spending to preserve and maintain the roadways and bridges at, or above, the "Established Condition Level" cited above, and the actual amount spent (in thousands):

For the Period Ended	Roadways		Bridges	
<u>June 30</u>	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Actual</u>
2010	\$259,147	\$425,681	\$39,707	\$44,312
2009	374,003	405,439	40,217	46,815
2008	270,331	310,355	36,224	29,196
2007	236,556	286,663	35,624	28,183
2006	224,472	277,442	33,052	38,327
2005	261,846	229,414	35,372	23,054

Actual and estimated maintenance/preservation expenses are determined using the accrual basis of accounting.

Other Post Employment Benefits Schedule of Funding Progress—Primary Government
(dollars in thousands)

Actuarial Valuation Date	Actuarial Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) — (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/07 State Plan		\$ 0	\$ 1,152,887	\$ 1,152,887	0 %	\$ 1,944,150	59.30%
7/1/09 State Plan		\$ 0	\$ 1,104,073	\$ 1,104,073	0 %	\$ 1,729,937	63.82%
7/1/07 Teacher Grp (State-Share)		\$ 0	\$ 252,546	\$ 252,546	0 %	N/A	N/A
7/1/09 Teacher Grp (State-Share)		\$ 0	\$ 240,910	\$ 240,910	0 %	N/A	N/A
7/1/07 MedSup S		\$ 0	\$ 200,080	\$ 200,080	0 %	N/A	N/A
7/1/09 MedSup S		\$ 0	\$ 209,622	\$ 209,622	0 %	N/A	N/A
7/1/07 MedSup T		\$ 0	\$ 140,464	\$ 140,464	0 %	N/A	N/A
7/1/09 MedSup T		\$ 0	\$ 158,789	\$ 158,789	0 %	N/A	N/A

* An additional year will be reported as data becomes available.

Other Post Employment Benefits Schedule of Funding Progress—Component Units
(dollars in thousands)

Actuarial Valuation Date	Actuarial Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) — (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/07	State P	\$ 0	\$ 652,696	\$ 652,696	0 %	\$ 1,378,089	47%
7/1/09	State P	\$ 0	\$ 577,744	\$ 577,744	0 %	\$ 1,371,949	42%

* An additional year will be reported as data becomes available.

State of Tennessee
AccessTN Insurance Fund
Required Supplementary Information
Ten-Year Claims Development Table

(Expressed in Thousands)

The table below illustrates how the AccessTN Insurance Fund's earned revenues and investment income compared to related costs of loss and other expenses assumed by the AccessTN Insurance Fund as of the end of each of the last four fiscal years since inception of the fund in April 2007. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the fund including overhead and claims expense not allocable to individual claims. (3) This line shows the fund's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (policy year). (4) This section shows the cumulative net amounts paid as of the end of successive years for each year. (5) This section shows how each year's net incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive fiscal and policy years.

	2007	2008	2009	2010
(1) Required contribution and investment revenue earned (fiscal year)	877	21,847	23,777	15,773
(2) Unallocated expenses	3,520	2,830	2,085	1,195
(3) Estimated claims and expenses, end of policy year, net incurred	8,922	38,764	39,811	*
(4) Net paid (cumulative) as of:				
End of policy year	6,591	34,095	36,859	*
One year later	9,044	38,791	*	*
Two years later	9,056	*	*	*
(5) Reestimated net incurred claims and expenses:				
End of policy year	8,922	38,764	39,811	*
One year later	8,975	38,715	*	*
Two years later	9,051	*	*	*
(6) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	129	(49)	*	*

* Data not available

See the notes to the financial statements for instructions on obtaining the stand alone reports containing the above table for the remainder of the State's insurance funds not presented here.

State of Tennessee
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Required Supplementary Information
Major Governmental Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	General Fund			Variance With
	Budgeted Amounts		Actual (Budgetary Basis)	Final Budget - Positive (Negative)
	Original	Final		
Sources of financial resources:				
Fund balances (budgetary basis), July 1	\$ 1,746,694	\$ 1,746,694	\$ 1,746,694	
Add:				
Contract reserves reappropriated				
Adjusted fund balances (budgetary basis), July 1	1,746,694	1,746,694	1,746,694	
Revenues:				
Taxes	5,475,103	5,475,103	5,408,496	\$ (66,607)
Licenses, fines, fees, and permits	281,549	281,549	286,619	5,070
Interest on investments	7,500	7,500	12,875	5,375
Federal	9,546,844	10,653,158	10,019,856	(633,302)
Departmental services	2,106,415	2,164,037	2,057,330	(106,707)
Other	209,611	209,611	189,611	(20,000)
Other financing sources:				
Transfers in	10,564	119,563	119,563	
Bond authorization				
Other		20,978	20,978	
Total sources of financial resources	19,384,280	20,678,193	19,862,022	(816,171)
Uses of financial resources:				
Expenditures and encumbrances:				
General government				
Legislative	72,411	72,422	37,642	34,780
Secretary of State	48,773	48,783	37,110	11,673
Comptroller	100,726	101,487	83,063	18,424
Treasurer	55,082	56,993	46,221	10,772
Governor	3,802	3,665	3,360	305
Commissions	88,099	88,581	75,099	13,482
Finance and Administration	216,050	223,946	87,413	136,533
Personnel	12,875	15,095	11,987	3,108
General Services	23,426	23,099	17,482	5,617
Revenue	110,845	110,833	102,397	8,436
Miscellaneous Appropriations	36,384	836	32,887	(32,051)
Education				
Health and social services				
Veterans Affairs	5,169	4,852	4,600	252
Labor and Workforce Development	302,008	300,586	244,963	55,623
TennCare	8,252,191	8,988,593	8,188,421	800,172
Mental Health	344,477	345,607	295,178	50,429
Mental Retardation	836,175	885,950	863,965	21,985
Health	599,364	598,495	507,259	91,236
Human Services	3,046,899	3,334,308	3,076,558	257,750
Cover Tennessee	207,407	206,025	175,666	30,359
Children's Services	682,486	689,595	660,793	28,802
Law, justice and public safety				
Judicial	295,498	302,162	284,970	17,192
Correction	686,028	647,776	621,536	26,240
Probation and Parole	88,028	84,136	80,590	3,546
Military	111,210	179,771	91,767	88,004
Bureau of Criminal Investigation	64,319	64,972	63,228	1,744
Safety	169,188	164,352	154,081	10,271
Recreation and resource development				
Agriculture	84,108	79,460	71,392	8,068
Tourist Development	20,161	19,520	17,492	2,028
Environment and Conservation	300,256	303,467	218,702	84,765
Economic and Community Development	386,860	416,587	83,939	332,648
Regulation of business and professions				
Commerce and Insurance	86,925	86,971	70,084	16,887
Financial Institutions	18,388	18,298	14,144	4,154
Transportation				
Intergovernmental revenue sharing	538,867	538,867	538,867	
Other financing uses:				
Transfers out	1,131,654	1,132,174	1,132,174	
Total uses of financial resources	19,026,139	20,138,264	17,995,030	2,143,234
Fund balances (budgetary basis), June 30	\$ 358,141	\$ 539,929	\$ 1,866,992	\$ 1,327,063

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State of Tennessee
Required Supplementary Information
Reconciliation of Budget to GAAP
Note to RSI
For the Fiscal Year Ended June 30, 2010

(Expressed in thousands)

1. Explanation of differences between budgetary inflows and outflows and GAAP revenues and expenditures

	General Fund	Education Fund	Highway Fund
Sources of financial resources			
Actual amounts (budgetary basis)	\$ 19,862,022	\$ 7,219,966	\$ 2,655,696
Differences - budget to GAAP:			
The fund balance at the beginning of the fiscal year is a budgetary resource but is not a current-year revenue for financial statement purposes.	(1,746,694)	(524,165)	(613,431)
Other financing sources are inflows of budgetary resources, but are not revenues for financial statement purposes.	(140,541)	(997,768)	(108,600)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 17,974,787</u>	<u>\$ 5,698,033</u>	<u>\$ 1,933,665</u>
Uses of financial resources			
Actual amounts (budgetary basis)	\$ 17,995,030	\$ 6,674,918	\$ 2,647,279
Differences - budget to GAAP:			
Certain construction contract commitments are reported in the year of federal appropriation for budgetary purposes, but in the year the services are received for financial reporting purposes.			(494,894)
Transfers to other funds are outflows of budgetary resources, but are not expenditures for financial statement purposes.	(1,132,174)	(402)	(1,336)
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 16,862,856</u>	<u>\$ 6,674,516</u>	<u>\$ 2,151,049</u>

2. Budgetary process

Legislation requires the Governor to present his proposed budget to the General Assembly at the beginning of each annual session. Annual budgets are adopted for the general fund, special revenue funds (except Fraud and Economic Crime and Dairy Promotion Board), and debt service fund. The General Assembly enacts the budget through passage of specific departmental appropriations, the sum of which may not exceed estimated revenues. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the State's financial plan for the coming year.

Budgetary control is maintained at the departmental level. Budget revisions during the year, reflecting program changes or intradepartmental transfers of an administrative nature, may be affected with certain executive and legislative branch approval. Only the legislature, however, may transfer appropriations between departments.

Most appropriations generally lapse at the end of each fiscal year. There were no outstanding encumbrances reported as of June 30, 2010. In order to provide sufficient funding for several programs during the year, supplemental appropriations of \$51.178 million were required.

The State's annual budget is prepared on the modified accrual basis of accounting with several exceptions, principally the effect of contract obligations and certain budgetary commitments in the highway fund. Because these exceptions represent departures from generally accepted accounting principles (GAAP), actual amounts, in the accompanying budgetary comparison schedule, are presented on the budgetary basis. Appropriations for contract obligations in the highway fund do not lapse at year-end, but are carried forward for subsequent year expenditures. In addition, it is the State's budgetary practice to appropriate matching dollars for jointly funded projects in the year of federal apportionment. These appropriations do not lapse at year-end but are also carried forward for subsequent year expenditure.

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds—A description of these funds is found later in this section.

Debt Service Fund—The Debt Service Fund is maintained to account for accumulation of resources for, and the payment of, principal and interest on general long-term debt.

Capital Projects Fund—The Capital Projects Fund is maintained to account for the acquisition or construction of major governmental capital assets financed principally by long-term bonds.

Permanent Funds—A description of these funds is found later in this section.

State of Tennessee
Combining Balance Sheet
Nonmajor Governmental Funds - By Fund Type
June 30, 2010

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds	Total Nonmajor Governmental Funds
Assets					
Cash and cash equivalents	\$ 299,868	\$ 3,094	\$ 311,681	\$ 52,707	\$ 667,350
Investments				210,182	210,182
Receivables:					
Taxes	3,736	5,342		15	9,093
Due from other governments	9,944		5,683		15,627
Interest				3,733	3,733
Other	654				654
Due from other funds	1				1
Due from component units			1,375	500	1,875
Loans receivable	3,719	12,779			16,498
Restricted assets:					
Cash and cash equivalents			73,435		73,435
Total assets	\$ 317,922	\$ 21,215	\$ 392,174	\$ 267,137	\$ 998,448
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	\$ 31,126	\$ 116	\$ 6,676	\$ 3,261	\$ 41,179
Due to other funds	293		20		313
Due to component units				1,839	1,839
Deferred revenue	2,023	13,959			15,982
Advance from federal government	35,163				35,163
Deposits payable	1				1
Payable from restricted assets			40,803		40,803
Other		425			425
Total liabilities	68,606	14,500	47,499	5,100	135,705
Fund balances:					
Reserved for:					
Related assets	3,719				3,719
Specific purposes:					
Permanent funds:					
Expendable				117,839	117,839
Nonexpendable				144,198	144,198
Unreserved, undesignated reported in:					
Special revenue funds	245,597				245,597
Debt service fund		6,715			6,715
Capital projects fund			344,675		344,675
Total fund balances	249,316	6,715	344,675	262,037	862,743
Total liabilities and fund balances	\$ 317,922	\$ 21,215	\$ 392,174	\$ 267,137	\$ 998,448

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds - By Fund Type
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds	Total Nonmajor Governmental Funds
Revenues					
Taxes:					
Sales		\$ 43,794			\$ 43,794
Fuel	\$ 15,099	110,400			125,499
Business	293	231,506			231,799
Other	13,371				13,371
Licenses, fines, fees, and permits	173,888	2,700		\$ 2,369	178,957
Investment income	806			22,438	23,244
Federal	35,484		\$ 10,307		45,791
Departmental services	12,261	908	61,971		75,140
Other	4			16	20
Total revenues	<u>251,206</u>	<u>389,308</u>	<u>72,278</u>	<u>24,823</u>	<u>737,615</u>
Expenditures					
Current:					
General government	23,353				23,353
Education				7,657	7,657
Law, justice and public safety	6,079				6,079
Recreation and resources development	164,022			170	164,192
Regulation of business and professions	54,972				54,972
Debt service:					
Bond principal retirement		101,804			101,804
Bond interest		63,856			63,856
Commercial paper interest		488			488
Debt issuance costs		4,837			4,837
Capital outlay			485,937		485,937
Total expenditures	<u>248,426</u>	<u>170,985</u>	<u>485,937</u>	<u>7,827</u>	<u>913,175</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,780</u>	<u>218,323</u>	<u>(413,659)</u>	<u>16,996</u>	<u>(175,560)</u>
Other financing sources (uses)					
Bond and commercial paper issued			415,033		415,033
Commercial paper redeemed			(155,973)		(155,973)
Refunding bond proceeds		43,985			43,985
Refunding payment to escrow		(43,985)			(43,985)
Bond premium		26,358			26,358
Insurance claims recoveries			168		168
Transfers in	4,865	3,423	98,226	402	106,916
Transfers out	(149)	(245,386)	(150)		(245,685)
Total other financing sources (uses)	<u>4,716</u>	<u>(215,605)</u>	<u>357,304</u>	<u>402</u>	<u>146,817</u>
Net changes in fund balances	<u>7,496</u>	<u>2,718</u>	<u>(56,355)</u>	<u>17,398</u>	<u>(28,743)</u>
Fund balances, July 1	<u>241,820</u>	<u>3,997</u>	<u>401,030</u>	<u>244,639</u>	<u>891,486</u>
Fund balances, June 30	<u>\$ 249,316</u>	<u>\$ 6,715</u>	<u>\$ 344,675</u>	<u>\$ 262,037</u>	<u>\$ 862,743</u>

NONMAJOR SPECIAL REVENUE FUNDS

Specific revenues, earmarked to finance particular activities of government, are accounted for in the Special Revenue Funds. A brief description of each fund follows.

Wildlife Resources Agency—This agency is responsible for the preservation, management, enhancement and protection of the state's wildlife resources and their environs. An additional responsibility is the enforcement of boating safety on state lakes and streams. Revenues are derived principally from hunting and fishing licenses, fees and permits.

Criminal Injuries Compensation—The Treasury Department administers this fund for the award of compensation to victims (or their dependents) who suffer personal injury or death as a result of a criminal act. The primary revenue source is the privilege tax levied by the courts at the time of conviction of the offender.

Solid Waste—This program is administered by the Department of Environment and Conservation. Revenues collected for a tipping fee on solid waste are used to provide grants to local governments to reduce the solid waste going into landfills.

Job Skills—This program is administered by the Department of Economic and Community Development. Revenues are collected from a tax on employer's wages. The revenues will be used to enhance employment opportunities and to meet the needs of existing and new industries in the state.

Help America Vote—This program is administered by the Secretary of State. Federal funds, along with state matching dollars, are used in implementing the provisions of the federal Help America Vote Act. The provisions of the act require the funds be used to improve election administration and to replace punch card and lever voting machines.

Environmental Protection—This program is administered by the Department of Environment and Conservation. Revenues collected from the various fees under the environmental protection fund are used to offset the cost of administering regulatory environmental programs.

Hazardous Waste—This program is administered by the Department of Environment and Conservation. Revenues collected from applicants and holders of storage, treatment or disposal permits of hazardous waste are used to supervise the construction, operation, maintenance, closure and, where necessary, the post-closure care of hazardous waste facilities.

Parks Acquisition—This program is administered jointly by the Departments of Environment and Conservation, Agriculture and Wildlife Resources. Revenues collected from the transfer of real property are used to acquire parks by both local and state governments.

Supreme Court Boards—This organization was formed by the Tennessee Supreme Court to consider and investigate any alleged ground for discipline or alleged incapacity of any attorney, and to provide continuing legal education for attorneys. Revenues are collected from attorneys.

Underground Storage Tanks—This program is administered by the Department of Environment and Conservation. Revenues are collected primarily from a tax of four tenths of a cent per gallon on petroleum products and an annual fee on owners and operators of underground storage tanks containing petroleum substances.

Enhanced Emergency 911 Service—This program is administered by the Department of Commerce and Insurance. Revenues are collected from a monthly fee on users of cellular telephone services. This fee is used to enhance the effectiveness of response times when a cellular user calls 911.

Driver Education—This program is designed and coordinated by the Department of Safety. Highway safety is promoted by providing driver education, instruction and training in schools, colleges and community organizations. The \$2 fee for moving traffic violations is the source of funding for this program.

Abandoned Land Program—This program is administered by the Department of Environment and Conservation. Revenues collected from surface mining permit fees and forfeited performance bonds are used to reclaim and restore lands affected by abandoned mining operations.

Agricultural Non-Point Water Pollution—This program is administered by the Department of Agriculture. Revenues collected from the transfer of real property are used to abate pollution from agricultural sources.

Regulatory Boards—This program is administered by the Department of Commerce and Insurance. Revenues are collected from fees assessed on licenses to real estate brokers, affiliate real estate brokers or auctioneers. These revenues are used to pay court judgments for violations by brokers, contractors or auctioneers of the applicable acts or of any rules promulgated by the appropriate officials.

Salvage Title Enforcement—This program is administered by the Department of Revenue. Revenues are collected on the titlement of salvage vehicles and are used to enforce motor vehicle title and salvage laws and inspection of rebuilt vehicles.

Dairy Promotion Board—This Board was formed to promote the consumption of milk and milk products. Revenue is derived from an assessment against commercial milk and milk product producers.

Drycleaner's Environmental Response—This program is administered by the Department of Environment and Conservation. Revenues collected from drycleaners are an annual registration fee and a fee for the various dry-cleaning solvents used.

Agricultural Regulatory Fund—This program is administered by the Department of Agriculture. Revenues are collected from fees on the various agricultural related industries regulated by the department. These fees are then used in the administration of this regulatory function.

Tennessee Regulatory Authority—The authority is responsible for executing and enforcing all statutes governing utilities. Revenues are derived principally from inspection and supervision fees.

Small and Minority Owned Business Assistance—This program provides loans and loan guarantees and technical assistance to small and minority-owned companies. Revenues collected during fiscal years 1997-2001, were derived from a fee on telecommunication service providers.

Sex Offender Treatment Program—This program was formed to standardize the evaluation, identification, treatment and continued monitoring of sex offenders. Revenue is derived from a fine on those convicted of a sex offense.

Pre-need Consumer Protection—This program is administered by the Department of Commerce and Insurance. Revenues are collected from fees on every pre-need cemetery and funeral contract entered into by a registered seller of pre-need funeral and cemetery contracts. These fees are used to fund the pre-need registration programs and to fund any receivership action initiated against a cemetery or funeral establishment.

Fraud and Economic Crime—This program is administered by the District Attorneys General of the State. Revenues are collected from individuals prosecuted for bad checks. These monies are used to increase resources available to prosecute bad check cases.

State of Tennessee
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2010

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Job Skills	Help America Vote	Environmental Protection
Assets						
Cash and cash equivalents	\$ 49,465	\$ 11,393	\$ 5,784	\$ 12,339	\$ 36,840	\$ 11,671
Receivables:						
Taxes	61	601	1,752			
Due from other governments	2,927	5,181			13	
Other	208					
Due from other funds				1		
Loans receivable						
Total assets	<u>\$ 52,661</u>	<u>\$ 17,175</u>	<u>\$ 7,536</u>	<u>\$ 12,340</u>	<u>\$ 36,853</u>	<u>\$ 11,671</u>
Liabilities and fund balances						
Liabilities:						
Accounts payable and accruals	\$ 3,846	\$ 6,419	\$ 1,845	\$ 874		\$ 5
Due to other funds	164	59	6			
Deferred revenue	1					
Advance from federal government					\$ 35,163	
Deposits payable						
Total liabilities	<u>4,011</u>	<u>6,478</u>	<u>1,851</u>	<u>874</u>	<u>35,163</u>	<u>5</u>
Fund balances:						
Reserved for:						
Related assets						
Unreserved	<u>48,650</u>	<u>10,697</u>	<u>5,685</u>	<u>11,466</u>	<u>1,690</u>	<u>11,666</u>
Total fund balances	<u>48,650</u>	<u>10,697</u>	<u>5,685</u>	<u>11,466</u>	<u>1,690</u>	<u>11,666</u>
Total liabilities and fund balances	<u>\$ 52,661</u>	<u>\$ 17,175</u>	<u>\$ 7,536</u>	<u>\$ 12,340</u>	<u>\$ 36,853</u>	<u>\$ 11,671</u>

(continued on next page)

Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Driver Education
\$ 7,137	\$ 15,313	\$ 1,951	\$ 47,776	\$ 78,101	\$ 636
636			1,255 869 1		61
		431			
<u>7,773</u>	<u>15,313</u>	<u>2,382</u>	<u>49,901</u>	<u>78,101</u>	<u>697</u>
\$ 123 12 1,542	\$ 2,045	\$ 34 17	\$ 2,763 18 463	\$ 12,344 3	\$ 15 1
<u>1,677</u>	<u>2,045</u>	<u>51</u>	<u>3,244</u>	<u>12,347</u>	<u>16</u>
<u>6,096</u>	<u>13,268</u>	<u>2,331</u>	<u>46,657</u>	<u>65,754</u>	<u>681</u>
<u>6,096</u>	<u>13,268</u>	<u>2,331</u>	<u>46,657</u>	<u>65,754</u>	<u>681</u>
<u>\$ 7,773</u>	<u>\$ 15,313</u>	<u>\$ 2,382</u>	<u>\$ 49,901</u>	<u>\$ 78,101</u>	<u>\$ 697</u>

State of Tennessee
Combining Balance Sheet
Nonmajor Special Revenue Funds (continued)
June 30, 2010

(Expressed in Thousands)

	Abandoned Land Program	Agricultural Non-Point Water Pollution	Regulatory Boards	Salvage Title Enforcement	Dairy Promotion Board	Drycleaner's Environmental Response
Assets						
Cash and cash equivalents	\$ 1,162	\$ 1,529	\$ 3,901	\$ 852	\$ 3	\$ 1,543
Receivables:						
Taxes						
Due from other governments						
Other					7	
Due from other funds						
Loans receivable						
Total assets	<u>\$ 1,162</u>	<u>\$ 1,529</u>	<u>\$ 3,901</u>	<u>\$ 852</u>	<u>\$ 10</u>	<u>\$ 1,543</u>
Liabilities and fund balances						
Liabilities:						
Accounts payable and accruals	\$ 2	\$ 262	\$ 13	\$ 37	\$ 5	\$ 227
Due to other funds				4		1
Deferred revenue						
Advance from federal government						
Deposits payable						
Total liabilities	<u>2</u>	<u>262</u>	<u>13</u>	<u>41</u>	<u>5</u>	<u>228</u>
Fund balances:						
Reserved for:						
Related assets						
Unreserved	<u>1,160</u>	<u>1,267</u>	<u>3,888</u>	<u>811</u>	<u>5</u>	<u>1,315</u>
Total fund balances	<u>1,160</u>	<u>1,267</u>	<u>3,888</u>	<u>811</u>	<u>5</u>	<u>1,315</u>
Total liabilities and fund balances	<u>\$ 1,162</u>	<u>\$ 1,529</u>	<u>\$ 3,901</u>	<u>\$ 852</u>	<u>\$ 10</u>	<u>\$ 1,543</u>

Agricultural Regulatory Fund	Tennessee Regulatory Authority	Small and Minority Owned Business Assistance	Sex Offender Treatment Program	Pre-Need Consumer Protection	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
\$ 1,547	\$ 1,535	\$ 6,583	\$ 58	\$ 462	\$ 2,287	\$ 299,868
			6			3,736
	318					9,944
	7					654
		3,719				1
						3,719
<u>\$ 1,547</u>	<u>\$ 1,860</u>	<u>\$ 10,302</u>	<u>\$ 64</u>	<u>\$ 462</u>	<u>\$ 2,287</u>	<u>\$ 317,922</u>
	\$ 222	\$ 4	\$ 41			\$ 31,126
	25					293
						2,023
						35,163
	1					1
	248	4	41			68,606
		3,719				3,719
\$ 1,547	1,612	6,579	23	462	2,287	245,597
1,547	1,612	10,298	23	462	2,287	249,316
<u>\$ 1,547</u>	<u>\$ 1,860</u>	<u>\$ 10,302</u>	<u>\$ 64</u>	<u>\$ 462</u>	<u>\$ 2,287</u>	<u>\$ 317,922</u>

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Job Skills	Help America Vote	Environmental Protection
Revenues						
Taxes:						
Fuel	\$ 522					
Business	293					
Other	6,000		\$ 6,391			
Licenses, fines, fees, and permits	38,355	\$ 9,865	2,827			\$ 41,561
Interest on investments	152		23	\$ 58	\$ 6	34
Federal	23,875	5,181			417	
Departmental services	8,001	27	102			
Other		4				
Total revenues	<u>77,198</u>	<u>15,077</u>	<u>9,343</u>	<u>58</u>	<u>423</u>	<u>41,595</u>
Expenditures						
General government		14,055			417	
Law, justice and public safety						
Recreation and resources development	71,756		6,219	5,640		38,177
Regulation of business and professions						
Total expenditures	<u>71,756</u>	<u>14,055</u>	<u>6,219</u>	<u>5,640</u>	<u>417</u>	<u>38,177</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,442</u>	<u>1,022</u>	<u>3,124</u>	<u>(5,582)</u>	<u>6</u>	<u>3,418</u>
Other financing sources (uses)						
Transfers in	1,280					
Transfers out	<u>(149)</u>					
Total other financing sources (uses)	<u>1,131</u>					
Net change in fund balances	6,573	1,022	3,124	(5,582)	6	3,418
Fund balances, July 1	<u>42,077</u>	<u>9,675</u>	<u>2,561</u>	<u>17,048</u>	<u>1,684</u>	<u>8,248</u>
Fund balances, June 30	<u>\$ 48,650</u>	<u>\$ 10,697</u>	<u>\$ 5,685</u>	<u>\$ 11,466</u>	<u>\$ 1,690</u>	<u>\$ 11,666</u>

(continued on next page)

Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Driver Education
			\$ 14,577		
\$ 25	\$ 75	\$ 4,039	4,627	\$ 56,741	\$ 721
1,905	66	6	172	232	
2,880	2	265	3,232		
	607		239		
4,810	750	4,310	22,847	56,973	721
		4,263			504
5,089	6,856		22,863		
				54,753	
5,089	6,856	4,263	22,863	54,753	504
(279)	(6,106)	47	(16)	2,220	217
1,000					
1,000					
721	(6,106)	47	(16)	2,220	217
5,375	19,374	2,284	46,673	63,534	464
\$ 6,096	\$ 13,268	\$ 2,331	\$ 46,657	\$ 65,754	\$ 681

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Abandoned Land Program	Agricultural Non-Point Water Pollution	Regulatory Boards	Salvage Title Enforcement	Dairy Promotion Board	Drycleaner's Environmental Response
Revenues						
Taxes:						
Fuel						
Business						
Other					\$ 905	
Licenses, fines, fees, and permits	\$ 45		\$ 116	\$ 1,554		\$ 982
Interest on investments	4	\$ 2	14			5
Federal	25	3				
Departmental services	50		8		2	
Other						
Total revenues	<u>124</u>	<u>5</u>	<u>138</u>	<u>1,554</u>	<u>907</u>	<u>987</u>
Expenditures						
General government				1,223		
Law, justice and public safety						
Recreation and resources development	112	2,554			907	941
Regulation of business and professions			51			
Total expenditures	<u>112</u>	<u>2,554</u>	<u>51</u>	<u>1,223</u>	<u>907</u>	<u>941</u>
Excess (deficiency) of revenues over (under) expenditures	<u>12</u>	<u>(2,549)</u>	<u>87</u>	<u>331</u>	<u>-</u>	<u>46</u>
Other financing sources (uses)						
Transfers in		2,250				
Transfers out						
Total other financing sources (uses)		<u>2,250</u>				
Net change in fund balances	12	(299)	87	331		46
Fund balances, July 1	<u>1,148</u>	<u>1,566</u>	<u>3,801</u>	<u>480</u>	<u>5</u>	<u>1,269</u>
Fund balances, June 30	<u>\$ 1,160</u>	<u>\$ 1,267</u>	<u>\$ 3,888</u>	<u>\$ 811</u>	<u>\$ 5</u>	<u>\$ 1,315</u>

<u>Agricultural Regulatory Fund</u>	<u>Tennessee Regulatory Authority</u>	<u>Small and Minority Owned Business Assistance</u>	<u>Sex Offender Treatment Program</u>	<u>Pre-Need Consumer Protection</u>	<u>Fraud and Economic Crime</u>	<u>Total Nonmajor Special Revenue Funds</u>
						\$ 15,099
						293
						13,371
\$ 3,052	\$ 7,819		\$ 109	\$ 608	\$ 867	173,888
7						806
	844					35,484
	3	\$ 26	51			12,261
						4
<u>3,059</u>	<u>8,666</u>	<u>26</u>	<u>160</u>	<u>608</u>	<u>867</u>	<u>251,206</u>
	7,224	434				23,353
			500		812	6,079
2,908						164,022
				168		54,972
<u>2,908</u>	<u>7,224</u>	<u>434</u>	<u>500</u>	<u>168</u>	<u>812</u>	<u>248,426</u>
<u>151</u>	<u>1,442</u>	<u>(408)</u>	<u>(340)</u>	<u>440</u>	<u>55</u>	<u>2,780</u>
			335			4,865
						(149)
			335			4,716
151	1,442	(408)	(5)	440	55	7,496
<u>1,396</u>	<u>170</u>	<u>10,706</u>	<u>28</u>	<u>22</u>	<u>2,232</u>	<u>241,820</u>
\$ <u>1,547</u>	\$ <u>1,612</u>	\$ <u>10,298</u>	\$ <u>23</u>	\$ <u>462</u>	\$ <u>2,287</u>	\$ <u>249,316</u>

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Wildlife Resources Agency		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 42,077	\$ 42,077	
Revenues:			
Taxes	6,750	6,815	\$ 65
Licenses, fines, fees, and permits	36,150	38,355	2,205
Interest on investments		152	152
Federal	26,946	23,875	(3,071)
Departmental services	3,402	8,001	4,599
Other	11,450		(11,450)
Other financing sources - transfers in	1,280	1,280	
Total sources of financial resources	128,055	120,555	(7,500)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources	87,395	71,756	15,639
Economic and Community Development			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out	149	149	
Total uses of financial resources	87,544	71,905	15,639
Fund balances (budgetary basis), June 30	\$ 40,511	\$ 48,650	\$ 8,139

(continued on next page)

Criminal Injuries Compensation			Solid Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 9,675	\$ 9,675		\$ 2,561	\$ 2,561	
8,227	9,865	\$ 1,638	4,404	6,391	\$ 1,987
5,025	5,181	156	3,488	2,827	(661)
	27	27		23	23
3	4	1	234	102	(132)
22,930	24,752	1,822	10,687	11,904	1,217
15,880	14,055	1,825			
			8,125	6,219	1,906
15,880	14,055	1,825	8,125	6,219	1,906
\$ 7,050	\$ 10,697	\$ 3,647	\$ 2,562	\$ 5,685	\$ 3,123

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

		Job Skills	
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 17,048	\$ 17,048	
Revenues:			
Taxes			
Licenses, fines, fees, and permits			
Interest on investments		58	\$ 58
Federal			
Departmental services	285		(285)
Other			
Other financing sources - transfers in			
Total sources of financial resources	<u>17,333</u>	<u>17,106</u>	<u>(227)</u>
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development	9,285	5,640	3,645
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	<u>9,285</u>	<u>5,640</u>	<u>3,645</u>
Fund balances (budgetary basis), June 30	<u>\$ 8,048</u>	<u>\$ 11,466</u>	<u>\$ 3,418</u>

(continued on next page)

Help America Vote			Environmental Protection		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 1,684	\$ 1,684		\$ 8,248	\$ 8,248	
			48,409	41,561	\$ (6,848)
	6	\$ 6		34	34
19,500	417	(19,083)			
21,184	2,107	(19,077)	56,657	49,843	(6,814)
20,500	417	20,083			
			48,032	38,177	9,855
20,500	417	20,083	48,032	38,177	9,855
\$ 684	\$ 1,690	\$ 1,006	\$ 8,625	\$ 11,666	\$ 3,041

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

		Hazardous Waste	
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 5,375	\$ 5,375	
Revenues:			
Taxes			
Licenses, fines, fees, and permits			
Interest on investments		25	\$ 25
Federal	1,990	1,905	(85)
Departmental services	4,388	2,880	(1,508)
Other			
Other financing sources - transfers in	1,000	1,000	
Total sources of financial resources	12,753	11,185	(1,568)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation	11,734	5,089	6,645
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	11,734	5,089	6,645
Fund balances (budgetary basis), June 30	\$ 1,019	\$ 6,096	\$ 5,077

(continued on next page)

Parks Acquisition			Supreme Court Boards		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 19,374	\$ 19,374		\$ 2,284	\$ 2,284	
75	75		4,017	4,039	\$ 22
	66	\$ 66		6	6
1,722	2	(1,720)			
600	607	7		265	265
688		(688)			
22,459	20,124	(2,335)	6,301	6,594	293
			4,059	4,263	(204)
11,337	6,856	4,481			
11,337	6,856	4,481	4,059	4,263	(204)
\$ 11,122	\$ 13,268	\$ 2,146	\$ 2,242	\$ 2,331	\$ 89

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Underground Storage Tanks		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 46,673	\$ 46,673	
Revenues:			
Taxes	15,000	14,577	\$ (423)
Licenses, fines, fees, and permits	4,269	4,627	358
Interest on investments		172	172
Federal	7,120	3,232	(3,888)
Departmental services		239	239
Other			
Other financing sources - transfers in			
Total sources of financial resources	<u>73,062</u>	<u>69,520</u>	<u>(3,542)</u>
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation	26,488	22,863	3,625
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	<u>26,488</u>	<u>22,863</u>	<u>3,625</u>
Fund balances (budgetary basis), June 30	<u>\$ 46,574</u>	<u>\$ 46,657</u>	<u>\$ 83</u>

(continued on next page)

Enhanced Emergency 911 Service			Driver Education		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 63,534	\$ 63,534		\$ 464	\$ 464	
51,300	56,741 232	\$ 5,441 232	676	721	\$ 45
114,834	120,507	5,673	1,140	1,185	45
			677	504	173
57,078	54,753	2,325			
57,078	54,753	2,325	677	504	173
\$ 57,756	\$ 65,754	\$ 7,998	\$ 463	\$ 681	\$ 218

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Abandoned Land Program		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 1,148	\$ 1,148	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	500	45	\$ (455)
Interest on investments		4	4
Federal		25	25
Departmental services		50	50
Other			
Other financing sources - transfers in			
Total sources of financial resources	1,648	1,272	(376)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation	500	112	388
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	500	112	388
Fund balances (budgetary basis), June 30	\$ 1,148	\$ 1,160	\$ 12

(continued on next page)

Agricultural Non-Point Water Pollution		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 1,566	\$ 1,566	
	2	\$ 2
250	3	(247)
<u>2,250</u>	<u>2,250</u>	
<u>4,066</u>	<u>3,821</u>	<u>(245)</u>
2,801	2,554	247
<u>2,801</u>	<u>2,554</u>	<u>247</u>
\$ <u>1,265</u>	\$ <u>1,267</u>	\$ <u>2</u>

Regulatory Boards		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 3,801	\$ 3,801	
374	116	\$ (258)
	14	14
	8	8
<u>4,175</u>	<u>3,939</u>	<u>(236)</u>
374	51	323
<u>374</u>	<u>51</u>	<u>323</u>
\$ <u>3,801</u>	\$ <u>3,888</u>	\$ <u>87</u>

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Salvage Title Enforcement		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 480	\$ 480	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	1,465	1,554	\$ 89
Interest on investments			
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	1,945	2,034	89
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Revenue	1,461	1,223	238
Other financing uses - transfers out			
Total uses of financial resources	1,461	1,223	238
Fund balances (budgetary basis), June 30	\$ 484	\$ 811	\$ 327

(continued on next page)

Drycleaner's Environmental Response			Agricultural Regulatory Fund		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 1,269	\$ 1,269		\$ 1,396	\$ 1,396	
2,518	982 5	\$ (1,536) 5	2,354	3,052 7	\$ 698 7
			120		(120)
3,787	2,256	(1,531)	3,870	4,455	585
2,519	941	1,578	3,028	2,908	120
2,519	941	1,578	3,028	2,908	120
\$ 1,268	\$ 1,315	\$ 47	\$ 842	\$ 1,547	\$ 705

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Tennessee Regulatory Authority		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 170	\$ 170	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	8,300	7,819	\$ (481)
Interest on investments			
Federal	367	844	477
Departmental services	2	3	1
Other			
Other financing sources - transfers in			
Total sources of financial resources	8,839	8,836	(3)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions	8,701	7,224	1,477
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	8,701	7,224	1,477
Fund balances (budgetary basis), June 30	\$ 138	\$ 1,612	\$ 1,474

(continued on next page)

Small and Minority Owned Business Assistance		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 10,706	\$ 10,706	
	26	\$ 26
<u>10,706</u>	<u>10,732</u>	<u>26</u>
671	434	237
<u>10,035</u>	<u>10,298</u>	<u>263</u>

Sex Offender Treatment Program		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 28	\$ 28	
86	109	\$ 23
	51	51
<u>335</u>	<u>335</u>	
<u>449</u>	<u>523</u>	<u>74</u>
114	500	(386)
<u>114</u>	<u>500</u>	<u>(386)</u>
<u>335</u>	<u>23</u>	<u>(312)</u>

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual (Budgetary Basis)
 All Nonmajor Budgeted Special Revenue Funds (continued)
 For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Pre-Need Consumer Protection		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 22	\$ 22	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	461	608	\$ 147
Interest on investments			
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	483	630	147
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance	460	168	292
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	460	168	292
Fund balances (budgetary basis), June 30	\$ 23	\$ 462	\$ 439

Total Nonmajor Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 239,583	\$ 239,583	
26,229	27,858	\$ 1,629
172,594	173,021	427
	806	806
62,920	35,484	(27,436)
9,031	12,259	3,228
12,141	4	(12,137)
4,865	4,865	
527,363	493,880	(33,483)
4,059	4,263	(204)
20,500	417	20,083
16,551	14,489	2,062
8,701	7,224	1,477
114	500	(386)
677	504	173
5,829	5,462	367
108,735	80,257	28,478
87,395	71,756	15,639
9,285	5,640	3,645
57,912	54,972	2,940
1,461	1,223	238
149	149	
321,368	246,856	74,512
\$ 205,995	\$ 247,024	\$ 41,029

DEBT SERVICE FUND

The Debt Service Fund is maintained to account for accumulation of resources for and the payment of principal and interest on general long-term debt.

State of Tennessee
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Debt Service Fund
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Debt Service Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 3,997	\$ 3,997	
Revenues:			
Taxes	385,700	385,700	
Licenses, fines, fees, and permits	2,700	2,700	
Other		908	\$ 908
Other financing sources			
Transfers in	3,423	3,423	
Bond premium	26,358	26,358	
Total sources of financial resources	422,178	423,086	908
Uses of financial resources:			
Expenditures and encumbrances:			
Debt Service	404,373	170,985	233,388
Other financing uses - transfers out	245,386	245,386	
Total uses of financial resources	649,759	416,371	233,388
Fund balances (budgetary basis), June 30	\$ (227,581)	\$ 6,715	\$ 234,296

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PERMANENT FUNDS

Chairs of Excellence Fund—This fund was created by the General Assembly in 1986. Its purpose is to endow faculty chairs at the Tennessee Board of Regents and University of Tennessee campuses in order to attract more highly qualified professors. For a chair to be established, private contributions which a school collects are matched by monies the state has appropriated to fund this program. The chair also receives the interest earned from investment of these matched monies.

Academic Scholars Fund—This fund is used to account for the academic scholars program. An endowment was established in 1986 to provide scholarships to superior students from the interest earnings.

Other—This column includes various smaller funds in which legal restrictions require that the principal remain intact and only the earnings may be spent.

State of Tennessee
Combining Balance Sheet
Permanent Funds
June 30, 2010

(Expressed in Thousands)

	Chairs of Excellence	Academic Scholars	Other	Total Permanent Funds
Assets				
Cash and cash equivalents	\$ 10,058		\$ 42,649	\$ 52,707
Investments	206,475	\$ 3,707		210,182
Receivables:				
Taxes			15	15
Interest	3,733			3,733
Due from component units	500			500
	<u>220,766</u>	<u>3,707</u>	<u>42,664</u>	<u>267,137</u>
Total assets	<u>\$ 220,766</u>	<u>\$ 3,707</u>	<u>\$ 42,664</u>	<u>\$ 267,137</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable and accruals	\$ 3,261			\$ 3,261
Due to component units	1,839			1,839
	<u>5,100</u>			<u>5,100</u>
Total liabilities				<u>5,100</u>
Fund balances:				
Reserved for:				
Expendable	115,736	\$ 1,002	\$ 1,101	117,839
Nonexpendable	99,930	2,705	41,563	144,198
	<u>215,666</u>	<u>3,707</u>	<u>42,664</u>	<u>262,037</u>
Total fund balances	<u>215,666</u>	<u>3,707</u>	<u>42,664</u>	<u>262,037</u>
Total liabilities and fund balances	<u>\$ 220,766</u>	<u>\$ 3,707</u>	<u>\$ 42,664</u>	<u>\$ 267,137</u>

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Permanent Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Chairs of Excellence	Academic Scholars	Other	Total Permanent Funds
Revenues				
Licenses, fines, fees and permits			\$ 2,369	\$ 2,369
Investment income	\$ 21,938	\$ 387	113	22,438
Other			16	16
	<u>21,938</u>	<u>387</u>	<u>16</u>	<u>24,823</u>
Total revenues	<u>21,938</u>	<u>387</u>	<u>2,498</u>	<u>24,823</u>
Expenditures				
Education	7,115	542		7,657
Recreation and resources development			170	170
	<u>7,115</u>	<u>542</u>	<u>170</u>	<u>7,827</u>
Total expenditures	<u>7,115</u>	<u>542</u>	<u>170</u>	<u>7,827</u>
Excess (deficiency) of revenues over (under) expenditures	<u>14,823</u>	<u>(155)</u>	<u>2,328</u>	<u>16,996</u>
Other financing sources (uses)				
Transfers in		<u>402</u>		<u>402</u>
Total other financing sources (uses)		<u>402</u>		<u>402</u>
Net change in fund balances	14,823	247	2,328	17,398
Fund balances, July 1	<u>200,843</u>	<u>3,460</u>	<u>40,336</u>	<u>244,639</u>
Fund balances, June 30	<u>\$ 215,666</u>	<u>\$ 3,707</u>	<u>\$ 42,664</u>	<u>\$ 262,037</u>

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NONMAJOR ENTERPRISE FUNDS

The Enterprise Funds are used to account for the operations of state agencies that provide goods or services to the general public on a user charge basis. The state's nonmajor enterprise operations are described below.

State Loan Program—Operated since the early 1970's through the Department of Environment and Conservation, this program has provided financial assistance to local governments and utility districts for the construction of sewage treatment, solid waste recovery and waterworks facilities. In order for these borrowing entities to generate funds necessary to repay the loans, the imposition of a user's fee by the local systems was authorized. In order to finance this program, general obligation bonds were sold which, although remaining full faith and credit obligations of the state, are being retired from resources of this fund. Future financing for this program will be generated from the sale of revenue bonds or notes by the Local Development Authority.

Energy Loan Program—Created in 1988, this program makes loans to small businesses and local governments to improve energy efficiency.

Teacher Group Insurance—Established in January 1986, this fund is used to account for revenues received and claims paid on behalf of currently employed teachers of political subdivisions of the state who have elected coverage under a group medical plan similar to that offered state employees.

Local Government Group Insurance—Established in July 1991, this fund is used to account for revenues received and claims paid on behalf of active employees of local governments and quasi-governmental organizations established for the primary purpose of providing services for or on the behalf of state and local governments. This plan is similar to the plan offered to state employees.

Drinking Water Loan—Created in 1998, this fund provides loans to local governments and utility districts for the improvement of drinking water systems. The initial sources of the monies are federal grants and state appropriations.

Grain Indemnity—This program is administered by the Department of Agriculture. Revenues are collected from fees on grain sold by producers. These revenues are to be used to protect commodity producers in the event of the financial failure of a commodity dealer or warehouseman.

Property Utilization—This agency, a division of the Department of General Services, receives surplus federal property and redistributes it to civil defense units, health and educational institutions and other eligible donees within the state. The agency collects fees from the donees to offset operating costs. In addition, this agency handles surplus property by the various State agencies.

Client Protection—Created by the Tennessee Supreme Court, this fund provides services to protect clients from dishonest conduct by attorneys. Revenue is mainly generated through annual registration fees for attorneys.

State of Tennessee
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2010

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,309	\$ 20,506	\$ 131,773	\$ 17,349
Receivables:				
Accounts receivable, net			1,919	97
Interest				
Loans receivable		2,483		
Due from component units				
Inventories, at cost				
Total current assets	<u>1,309</u>	<u>22,989</u>	<u>133,692</u>	<u>17,446</u>
Noncurrent assets:				
Loans receivable		<u>8,198</u>		
Capital assets:				
Machinery and equipment, at cost				
Less-accumulated depreciation				
Total capital assets, net of accumulated depreciation				
Total noncurrent assets		<u>8,198</u>		
Total assets	<u>1,309</u>	<u>31,187</u>	<u>133,692</u>	<u>17,446</u>
Liabilities				
Current liabilities:				
Accounts payable and accruals	4		30,703	7,719
Due to other funds				
Unearned revenue				
Total current liabilities	<u>4</u>		<u>30,703</u>	<u>7,719</u>
Noncurrent liabilities:				
Other noncurrent liabilities				
Total noncurrent liabilities				
Total liabilities	<u>4</u>		<u>30,703</u>	<u>7,719</u>
Net assets				
Unrestricted	<u>1,305</u>	<u>31,187</u>	<u>102,989</u>	<u>9,727</u>
Total net assets	<u>\$ 1,305</u>	<u>\$ 31,187</u>	<u>\$ 102,989</u>	<u>\$ 9,727</u>

Drinking Water	Grain Indemnity	Property Utilization	Client Protection	Total Nonmajor Enterprise Funds
\$ 37,171	\$ 3,171		\$ 2,430	\$ 213,709
		\$ 107		2,123
9				9
4,059				6,542
		5		5
		39		39
<u>41,239</u>	<u>3,171</u>	<u>151</u>	<u>2,430</u>	<u>222,427</u>
<u>79,381</u>				<u>87,579</u>
		16		16
		(16)		(16)
		-		-
<u>79,381</u>		<u>-</u>		<u>87,579</u>
<u>120,620</u>	<u>3,171</u>	<u>151</u>	<u>2,430</u>	<u>310,006</u>
7		59		38,492
		55		55
		2		2
<u>7</u>		<u>116</u>		<u>38,549</u>
<u>2,101</u>		<u>144</u>		<u>2,245</u>
<u>2,101</u>		<u>144</u>		<u>2,245</u>
<u>2,108</u>		<u>260</u>		<u>40,794</u>
<u>118,512</u>	<u>3,171</u>	<u>(109)</u>	<u>2,430</u>	<u>269,212</u>
\$ <u><u>118,512</u></u>	\$ <u><u>3,171</u></u>	\$ <u><u>(109)</u></u>	\$ <u><u>2,430</u></u>	\$ <u><u>269,212</u></u>

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
Operating revenues				
Charges for services		\$ 58		
Investment income	\$ 6	72		
Premiums			\$ 420,751	\$ 104,736
Total operating revenues	6	130	420,751	104,736
Operating expenses				
Personal services				
Contractual services			19,981	5,204
Materials and supplies				
Rentals and insurance				
Benefits			422,228	105,918
Other			3,213	716
Total operating expenses			445,422	111,838
Operating income (loss)	6	130	(24,671)	(7,102)
Nonoperating revenues (expenses)				
Operating grants	(25)			
Interest income			491	74
Other				
Total nonoperating revenues (expenses)	(25)		491	74
Income (loss) before transfers	(19)	130	(24,180)	(7,028)
Transfers in				
Transfers out	(400)			
Change in net assets	(419)	130	(24,180)	(7,028)
Net assets, July 1	1,724	31,057	127,169	16,755
Net assets, June 30	\$ 1,305	\$ 31,187	\$ 102,989	\$ 9,727

Drinking Water	Grain Indemnity	Property Utilization	Client Protection	Total Nonmajor Enterprise Funds
\$ 1,439 114	\$ 175	\$ 843	\$ 200	\$ 2,715 192 525,487
1,553	175	843	200	528,394
357		851 409 102 3	18	851 25,969 102 3 528,146 4,042
	111	2		
357	111	1,367	18	559,113
1,196	64	(524)	182	(30,719)
11,150				11,125 584 (4,575)
(4,575)	11		8	
6,575	11		8	7,134
7,771	75	(524)	190	(23,585)
3,017		520		3,537 (400)
10,788	75	(4)	190	(20,448)
107,724	3,096	(105)	2,240	289,660
\$ 118,512	\$ 3,171	\$ (109)	\$ 2,430	\$ 269,212

State of Tennessee
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
Cash flows from operating activities				
Receipts from customers and users			\$ 425,734	\$ 106,884
Receipts from interfund services provided				
Payments to suppliers			(444,570)	(112,015)
Payments to employees				
Payments for interfund services used			(3,213)	(716)
Net cash from (used for) operating activities			(22,049)	(5,847)
Cash flows from noncapital financing activities				
Negative cash balance implicitly financed				
Operating grants received				
Transfers in				
Transfers out	\$ (400)			
Payments to component units	(25)			
Subsidy to borrowers	(5)			
Net cash from (used for) noncapital financing activities	(430)			
Cash flows from investing activities				
Loans issued		\$ (493)		
Collection of loan principal	280	2,850		
Interest received	6	130	491	74
Net cash from (used for) investing activities	286	2,487	491	74
Net increase (decrease) in cash and cash equivalents	(144)	2,487	(21,558)	(5,773)
Cash and cash equivalents, July 1	1,453	18,019	153,331	23,122
Cash and cash equivalents, June 30	\$ 1,309	\$ 20,506	\$ 131,773	\$ 17,349
Reconciliation of operating income to net cash provided (used) by operating activities				
Operating income (loss)	\$ 6	\$ 130	\$ (24,671)	\$ (7,102)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Investment income	(6)	(72)		
Charges for services		(58)		
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable			1,044	1,118
(Increase) decrease in due from component units				
(Increase) decrease in inventories				
Increase (decrease) in accounts payable			1,578	137
Increase (decrease) in due to other funds				
Increase (decrease) in unearned revenue				
Total adjustments	(6)	(130)	2,622	1,255
Net cash provided by (used for) operating activities	\$ -	\$ -	\$ (22,049)	\$ (5,847)

Drinking Water	Grain Indemnity	Property Utilization	Client Protection	Total Nonmajor Enterprise Funds
	\$ 175	\$ 645	\$ 200	\$ 533,638
	(265)	161		161
		(152)	(41)	(557,043)
\$ (357)		(856)		(856)
		(393)		(4,679)
(357)	(90)	(595)	159	(28,779)
		53		53
11,150				11,150
3,017		520		3,537
				(400)
				(25)
				(5)
14,167		573		14,310
(12,654)				(13,147)
704				3,834
1,524	11		8	2,244
(10,426)	11		8	(7,069)
3,384	(79)	(22)	167	(21,538)
33,787	3,250	22	2,263	235,247
\$ 37,171	\$ 3,171	\$ -	\$ 2,430	\$ 213,709
\$ 1,196	\$ 64	\$ (524)	\$ 182	\$ (30,719)
(1,553)				(1,631)
				(58)
		(32)		2,130
		(5)		(5)
		(39)		(39)
	(154)	6	(23)	1,544
		(2)		(2)
		1		1
(1,553)	(154)	(71)	(23)	1,940
\$ (357)	\$ (90)	\$ (595)	\$ 159	\$ (28,779)

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INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the operations of state agencies that provide goods or services to other state agencies on a cost-reimbursement basis. The following operations are included in these funds:

Office for Information Resources—a division of the Department of Finance and Administration, functions as the data and voice service bureau for state government.

Risk Management—administered by the Treasury Department, this fund is used to pay awards for claims made against the state and for damage to state owned property.

Motor Vehicle Management—a division of the Department of General Services, is responsible for administering a uniform program for the operation and maintenance of all state vehicles.

General Services Printing—a division of the Department of General Services, operates a printing facility to provide such services as general printing, typesetting and binding for state agencies located in Nashville. In addition, this division provides photographic services to the various state agencies.

Facilities Revolving Fund—Created in 1989, this fund provides the maintenance, repair and total housing needs of state government for all office and warehouse space in the state, except institutional space.

Employee Group Insurance Fund—Established in January 1978, this fund is used to account for transactions pertaining to the state's self-insured group medical plan. This fund primarily includes employees of the state, University of Tennessee, and the Tennessee Board of Regents System. Group life and accident insurance premiums, dental premiums, and long-term care premiums paid to private insurance companies are also recorded in this fund.

Food Services—a division of the Department of General Services, is responsible for the preparation and distribution of certain food to the various state institutions. This consists of food that is cooked and then immediately frozen and is then reheated at the institution.

Postal Services—a division of the Department of General Services, is responsible for processing and distributing incoming, outgoing and interdepartmental mail for state agencies located in Nashville.

Capitol Print Shop—a division of the Office of the Comptroller, is responsible for providing printing, mailing and other office services for the state agencies located in the Capitol.

Purchasing—a division of the Department of General Services, is responsible for the procurement of supplies, equipment and certain specialized services.

Central Stores—a division of the Department of General Services, is responsible for the purchasing and distribution of office supplies to all state government and quasi-governmental entities that opt to use this service.

Records Management—a division of the Department of General Services, is responsible for the retention and disposal of official records.

Division of Accounts—a division of the Department of Finance and Administration, is responsible for the centralized accounting function for the state.

TRICOR (Tennessee Rehabilitative Initiative in Correction)—Manages correctional industry, agriculture, and service operations. Its purpose is to employ and train inmates and provide products and services to state agencies, local governments, and not-for profit organizations.

Edison—maintained by the Department of Finance and Administration's Enterprise Resource Planning division, is the state's integrated software package for administrative business functions such as financials and accounting, procurement, payroll, benefits, and personnel administration.

State of Tennessee
Combining Statement of Net Assets
Internal Service Funds
June 30, 2010

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance	Food Services
Assets							
Current assets:							
Cash and cash equivalents	\$ 91,104	\$ 114,501	\$ 31,761	\$ 676	\$ 81,487	\$ 144,333	\$ 2,588
Accounts receivable	110		167	2	295	3,324	
Due from other funds	1,927				20		
Due from component units			3	1			
Inventories, at cost	1,173		19	87			
Prepaid expenses							
Total current assets	<u>94,314</u>	<u>114,501</u>	<u>31,950</u>	<u>766</u>	<u>81,802</u>	<u>147,657</u>	<u>2,588</u>
Noncurrent assets:							
Accounts receivable		8,998					
Due from other funds	1,350						
Deferred charges					246		
Lease receivable					2,060		
Capital assets:							
Land, at cost					66,112		215
Structures and improvements, at cost					510,069		15,752
Machinery and equipment, at cost	90,812		150,361	1,720	139		3,021
Less-accumulated depreciation	(63,492)		(94,369)	(1,376)	(235,591)		(8,599)
Construction in progress					42,509		
Total capital assets, net of accumulated depreciation	<u>27,320</u>		<u>55,992</u>	<u>344</u>	<u>383,238</u>		<u>10,389</u>
Total noncurrent assets	<u>28,670</u>	<u>8,998</u>	<u>55,992</u>	<u>344</u>	<u>385,544</u>		<u>10,389</u>
Total assets	<u>122,984</u>	<u>123,499</u>	<u>87,942</u>	<u>1,110</u>	<u>467,346</u>	<u>147,657</u>	<u>12,977</u>
Liabilities							
Current liabilities:							
Accounts payable	17,395	574	2,762	46	6,851	50,706	1,082
Accrued payroll and related deductions	2,140		99	128			5
Due to other funds	121		6	7			1
Lease obligations payable					139		
Bonds payable					17,312		
Unearned revenue		8	1,261			39,681	
Other		35,226					
Total current liabilities	<u>19,656</u>	<u>35,808</u>	<u>4,128</u>	<u>181</u>	<u>24,302</u>	<u>90,387</u>	<u>1,088</u>
Noncurrent liabilities:							
Lease obligations payable					670		
Commercial paper payable					26,388		
Bonds payable, net					178,908		
Other noncurrent liabilities	3,171	71,404	216	317			22
Total noncurrent liabilities	<u>3,171</u>	<u>71,404</u>	<u>216</u>	<u>317</u>	<u>205,966</u>		<u>22</u>
Total liabilities	<u>22,827</u>	<u>107,212</u>	<u>4,344</u>	<u>498</u>	<u>230,268</u>	<u>90,387</u>	<u>1,110</u>
Net assets							
Invested in capital assets, net of related debt	27,320		55,992	344	159,822		10,389
Unrestricted	<u>72,837</u>	<u>16,287</u>	<u>27,606</u>	<u>268</u>	<u>77,256</u>	<u>57,270</u>	<u>1,478</u>
Total net assets	<u>\$ 100,157</u>	<u>\$ 16,287</u>	<u>\$ 83,598</u>	<u>\$ 612</u>	<u>\$ 237,078</u>	<u>\$ 57,270</u>	<u>\$ 11,867</u>

Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
\$ 842 1	\$ 276	\$ 364 1	\$ 346	\$ 163	\$ 4,176 2	\$ 4,121 525	\$ 5,963	\$ 482,701
								4,427
								1,947
								4
275			267			3,929		5,750
215								215
<u>1,333</u>	<u>276</u>	<u>365</u>	<u>613</u>	<u>163</u>	<u>4,178</u>	<u>8,575</u>	<u>5,963</u>	<u>495,044</u>
								8,998
								1,350
								246
								<u>2,060</u>
								66,327
								525,821
2,567	290			220	118	9,455	98,087	356,790
(1,666)	(290)			(211)	(61)	(6,995)	(16,579)	(429,229)
<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u>42,509</u>
901	-			9	57	2,460	81,508	562,218
901	-			9	57	2,460	81,508	574,872
<u>2,234</u>	<u>276</u>	<u>365</u>	<u>613</u>	<u>172</u>	<u>4,235</u>	<u>11,035</u>	<u>87,471</u>	<u>1,069,916</u>
								81,217
31	4	2	9	1	16	970	768	4,272
113	24	131	39	46	402	420	725	203
6	2	8	3	3	23	23		139
								17,312
						1		40,951
<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u>35,226</u>
150	30	141	51	50	441	1,414	1,493	179,320
								670
							43,719	70,107
393	58	342	128	105	544	1,090	1,179	178,908
<u>393</u>	<u>58</u>	<u>342</u>	<u>128</u>	<u>105</u>	<u>544</u>	<u>1,090</u>	<u>44,898</u>	<u>78,969</u>
543	88	483	179	155	985	2,504	46,391	328,654
<u>901</u>	<u>188</u>	<u>(118)</u>	<u>434</u>	<u>9</u>	<u>57</u>	<u>2,460</u>	<u>37,789</u>	<u>295,083</u>
790				8	3,193	6,071	3,291	266,859
<u>\$ 1,691</u>	<u>\$ 188</u>	<u>\$ (118)</u>	<u>\$ 434</u>	<u>\$ 17</u>	<u>\$ 3,250</u>	<u>\$ 8,531</u>	<u>\$ 41,080</u>	<u>\$ 561,942</u>

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance	Food Services
Operating revenues							
Charges for services	\$ 163,327	\$ 27,119	\$ 36,035	\$ 3,665	\$ 136,568		\$ 5,377
Premiums						\$ 591,710	
Total operating revenues	<u>163,327</u>	<u>27,119</u>	<u>36,035</u>	<u>3,665</u>	<u>136,568</u>	<u>591,710</u>	<u>5,377</u>
Operating expenses							
Personal services	30,204		1,555	1,969			162
Contractual services	57,977	8,915	7,063	939	70,862	28,472	5,172
Materials and supplies	60,384		14,114	738	5,403		252
Rentals and insurance	28	3,371	31	82	40,628	754	4
Depreciation and amortization	7,464		12,416	65	11,769		603
Benefits		41,086				667,197	
Other	843		128	3	141	5,288	
Total operating expenses	<u>156,900</u>	<u>53,372</u>	<u>35,307</u>	<u>3,796</u>	<u>128,803</u>	<u>701,711</u>	<u>6,193</u>
Operating income (loss)	<u>6,427</u>	<u>(26,253)</u>	<u>728</u>	<u>(131)</u>	<u>7,765</u>	<u>(110,001)</u>	<u>(816)</u>
Nonoperating revenues (expenses)							
Taxes		2					
Operating grants		5,850					
Interest income		396			179	617	
Interest expense			(2)		(8,565)		
Total nonoperating revenues (expenses)		<u>6,248</u>	<u>(2)</u>		<u>(8,386)</u>	<u>617</u>	
Income (loss) before contributions and transfers	6,427	(20,005)	726	(131)	(621)	(109,384)	(816)
Capital contributions							
Transfers in	1,474		4,096	305	13,115		
Transfers out	<u>(225)</u>						
Change in net assets	7,676	(20,005)	4,822	174	12,494	(109,384)	(816)
Net assets, July 1	<u>92,481</u>	<u>36,292</u>	<u>78,776</u>	<u>438</u>	<u>224,584</u>	<u>166,654</u>	<u>12,683</u>
Net assets, June 30	<u>\$ 100,157</u>	<u>\$ 16,287</u>	<u>\$ 83,598</u>	<u>\$ 612</u>	<u>\$ 237,078</u>	<u>\$ 57,270</u>	<u>\$ 11,867</u>

Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
\$ 21,414	\$ 422	\$ 4,355	\$ 2,295	\$ 1,635	\$ 8,478	\$ 26,218	\$ 13,496	\$ 450,404
								591,710
<u>21,414</u>	<u>422</u>	<u>4,355</u>	<u>2,295</u>	<u>1,635</u>	<u>8,478</u>	<u>26,218</u>	<u>13,496</u>	<u>1,042,114</u>
1,833	470	2,249	757	732	5,466	7,082	9,284	61,763
1,828	178	1,703	719	764	3,537	5,878	11,083	205,090
17,524	50	271	813	16	84	10,033		109,682
12	80	10	3	137	9	725	609	46,483
276				1	23	811	9,559	42,987
								708,283
<u>10</u>					<u>8</u>	<u>154</u>	<u>4</u>	<u>6,579</u>
<u>21,483</u>	<u>778</u>	<u>4,233</u>	<u>2,292</u>	<u>1,650</u>	<u>9,127</u>	<u>24,683</u>	<u>30,539</u>	<u>1,180,867</u>
<u>(69)</u>	<u>(356)</u>	<u>122</u>	<u>3</u>	<u>(15)</u>	<u>(649)</u>	<u>1,535</u>	<u>(17,043)</u>	<u>(138,753)</u>
								2
								5,850
								1,192
							(135)	(8,702)
							(135)	(1,658)
(69)	(356)	122	3	(15)	(649)	1,535	(17,178)	(140,411)
							91,052	91,052
	250						13,000	32,240
							(8,620)	(8,845)
(69)	(106)	122	3	(15)	(649)	1,535	78,254	(25,964)
<u>1,760</u>	<u>294</u>	<u>(240)</u>	<u>431</u>	<u>32</u>	<u>3,899</u>	<u>6,996</u>	<u>(37,174)</u>	<u>587,906</u>
<u>\$ 1,691</u>	<u>\$ 188</u>	<u>\$ (118)</u>	<u>\$ 434</u>	<u>\$ 17</u>	<u>\$ 3,250</u>	<u>\$ 8,531</u>	<u>\$ 41,080</u>	<u>\$ 561,942</u>

State of Tennessee
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance	Food Services
Cash flows from operating activities							
Receipts from customers and users	\$ 1,571	\$ 7,749	\$ 1,241	\$ 13	\$ 3,878	\$ 248,731	\$ 3
Receipts from interfund services provided	164,065	19,370	34,764	3,651	132,740	379,455	5,374
Payments to suppliers	(102,706)	(33,176)	(13,755)	(1,084)	(104,207)	(728,842)	(4,609)
Payments to employees	(29,591)		(1,490)	(1,913)			(154)
Payments for interfund services used	(12,016)	(6,857)	(6,618)	(710)	(16,135)	(5,300)	(416)
Net cash from (used for) operating activities	21,323	(12,914)	14,142	(43)	16,276	(105,956)	198
Cash flows from noncapital financing activities							
Transfers in	1,474		4,096	305	13,115		
Transfers out	(225)						
Tax revenues received		2					
Net cash from (used for) noncapital financing activities	1,249	2	4,096	305	13,115		
Cash flows from capital and related financing activities							
financing activities							
Purchase of capital assets	(15,153)		(5,192)		(32,531)		(6)
Bond and commercial paper proceeds					65,986		
Proceeds from sale of capital assets			852		201		
Principal payments			(2,607)	(26)	(32,644)		
Interest paid			(2)		(8,814)		
Net cash from (used for) capital and related financing activities	(15,153)		(6,949)	(26)	(7,802)		(6)
Cash flows from investing activities							
Interest received		396			179	617	
Net cash from (used for) investing activities		396			179	617	
Net increase (decrease) in cash and cash equivalents	7,419	(12,516)	11,289	236	21,768	(105,339)	192
Cash and cash equivalents, July 1	83,685	127,017	20,472	440	59,719	249,672	2,396
Cash and cash equivalents, June 30	\$ 91,104	\$ 114,501	\$ 31,761	\$ 676	\$ 81,487	\$ 144,333	\$ 2,588
Reconciliation of operating income to net cash provided (used) by operating activities							
Operating income (loss)	\$ 6,427	\$ (26,253)	\$ 728	\$ (131)	\$ 7,765	\$ (110,001)	\$ (816)
Adjustments to reconcile operating income (loss) to net cash from operating activities:							
Depreciation and amortization	7,464		12,416	65	11,769		603
Loss on disposal of capital assets	786		128		114		
Bond issuance cost					15		
Capital lease executory costs paid					28		
Changes in assets and liabilities:							
(Increase) decrease in accounts receivable	120		(68)		70	2,403	
(Increase) decrease in due from other funds	2,189				(19)		
(Increase) decrease in due from component units			5	(1)			
(Increase) decrease in inventories	(34)		(13)	13			
(Increase) decrease in prepaid expenses							
Increase (decrease) in accounts payable	4,376	13,347	912	11	(3,466)	459	411
Increase (decrease) in due to other funds	(5)	(8)	1				
Increase (decrease) in unearned revenue			33			1,183	
Total adjustments	14,896	13,339	13,414	88	8,511	4,045	1,014
Net cash provided by (used for) operating activities	\$ 21,323	\$ (12,914)	\$ 14,142	\$ (43)	\$ 16,276	\$ (105,956)	\$ 198
Noncash investing, capital and financing activities							
Contributed capital assets							
Total noncash investing, capital and financing activities							

Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
\$ 152	\$ 9	\$ 100	\$ 2	\$ 14	\$ 356	\$ 6,256	\$ 54	\$ 270,129
21,262	413	4,254	2,293	1,621	8,122	20,338	13,442	811,164
(17,673)	(266)	(355)	(955)	(175)	(876)	(15,704)	(7,573)	(1,031,956)
(1,716)	(458)	(2,175)	(734)	(688)	(5,321)	(7,068)	(8,074)	(59,382)
(1,827)	(32)	(1,641)	(583)	(756)	(2,777)	(937)	(4,983)	(61,588)
<u>198</u>	<u>(334)</u>	<u>183</u>	<u>23</u>	<u>16</u>	<u>(496)</u>	<u>2,885</u>	<u>(7,134)</u>	<u>(71,633)</u>
	250						13,000	32,240
							(8,620)	(8,845)
	<u>250</u>							<u>2</u>
							4,380	23,397
(720)						(246)	(15)	(53,863)
							4,916	70,902
								1,053
							(135)	(35,277)
								(8,951)
<u>(720)</u>						<u>(246)</u>	<u>4,766</u>	<u>(26,136)</u>
								1,192
								1,192
(522)	(84)	183	23	16	(496)	2,639	2,012	(73,180)
<u>1,364</u>	<u>360</u>	<u>181</u>	<u>323</u>	<u>147</u>	<u>4,672</u>	<u>1,482</u>	<u>3,951</u>	<u>555,881</u>
\$ <u>842</u>	\$ <u>276</u>	\$ <u>364</u>	\$ <u>346</u>	\$ <u>163</u>	\$ <u>4,176</u>	\$ <u>4,121</u>	\$ <u>5,963</u>	\$ <u>482,701</u>
\$ <u>(69)</u>	\$ <u>(356)</u>	\$ <u>122</u>	\$ <u>3</u>	\$ <u>(15)</u>	\$ <u>(649)</u>	\$ <u>1,535</u>	\$ <u>(17,043)</u>	\$ <u>(138,753)</u>
276				1	23	811	9,559	42,987
10								1,038
								15
								28
		(1)				41		2,565
						337		2,507
(45)	9		178			(160)		4
(96)	19							(52)
121	(8)	63	(158)	30	129	326	350	(77)
1	2	(1)			1	(3)		16,903
						(2)		(12)
<u>267</u>	<u>22</u>	<u>61</u>	<u>20</u>	<u>31</u>	<u>153</u>	<u>1,350</u>	<u>9,909</u>	<u>1,214</u>
<u>267</u>	<u>22</u>	<u>61</u>	<u>20</u>	<u>31</u>	<u>153</u>	<u>1,350</u>	<u>9,909</u>	<u>67,120</u>
\$ <u>198</u>	\$ <u>(334)</u>	\$ <u>183</u>	\$ <u>23</u>	\$ <u>16</u>	\$ <u>(496)</u>	\$ <u>2,885</u>	\$ <u>(7,134)</u>	\$ <u>(71,633)</u>
							\$ 91,052	\$ 91,052
							\$ 91,052	\$ 91,052

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FIDUCIARY FUNDS

The Fiduciary Funds are used to account for assets held by the state in a fiduciary capacity.

Pension and Other Employee Benefit Trust:

Pension Trust Fund—The Tennessee Consolidated Retirement System was established in July 1972 superseding seven former retirement systems. The accounts of each superseded system were transferred to the new system wherein separate accounting is maintained for assets and liabilities attributable to the various classes of members and beneficiaries. Benefits under the system are funded by contributions of members and employers. Effective July 1981, contributions of up to 5% of the retirement credible compensation of most classes of state employees, formerly paid by those employees, were assumed by the state pursuant to non-contributory legislation. The level of contributions is determined by actuarial valuation, the latest having been performed as of July 1, 2009. As of that date there were 214,950 active members and 110,875 retired members representing a 1.05% and 12.87% increase, respectively, since the previous actuarial valuation in 2007.

Employee Flexible Benefits—Established in January 1988, this fund is used to account for monies contributed by employees under the IRC Section 125 cafeteria plan.

Private-Purpose Trust Funds:

Baccalaureate Education—This trust was created by the General Assembly in 1996, for the purpose of allowing parents and other interested persons to purchase tuition units on behalf of a designated beneficiary. These units entitle the beneficiary to the payment of qualified tuition, room and board, fees, costs of books, supplies and equipment required for the enrollment or attendance at any accredited public or private, in-state or out-of-state institution. Funds in this trust may only be provided to named individuals who are participants in the program. No other State programs are supported from this trust.

Children in State Custody—This fund accounts for monies held and used for the benefit of children in the custody of the state. Monies held are from various sources including the Social Security Administration.

Oak Ridge Monitoring—Created in 2000 through a consent order won by the state with the United States Department of Energy (DOE), this fund is used to account for monies paid annually through fiscal year 2014 by the federal government to the state for future expenses at the Environmental Management Waste Management Facility at Oak Ridge. After the federal landfill is closed, the income generated from the corpus is to be used for monitoring and maintenance of the facility to ensure there is no radioactive leakage.

TNInvestco—Established in 2009, this fund was created by the General Assembly for the purpose of increasing the flow of capital to innovative new companies in Tennessee that are in the early stages of development. This fund accounts for proceeds held and used to carry out the provisions of the Tennessee Small Business Investment Company Credit Act.

Other—These funds account for trust arrangements under which the principal and income benefit individuals or private organizations.

Agency Funds:

Local Government Fund—The purpose of the Local Government Fund is to serve as a clearing mechanism for state-shared taxes and other funds distributed to the various counties and cities of the state.

Contingent Revenue Fund—This fund is used to account for refundable deposits and other receipts held in trust until the state has the right to transfer them to operating funds or until there is proper authorization to disburse them directly to others.

Retiree Health Funds—These funds are used to account for funding received and claims paid on behalf of retirees who elect coverage. Pre- and post-65 retired employees of the state, local education, and local government employers are included.

State of Tennessee
Combining Statement of Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
June 30, 2010

(Expressed in Thousands)

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEP)	Political Subdivisions Pension Plan (PSPP)	Total Pension	Other Employee Benefit Trust	Total Pension (and Other Employee Benefit) Trust Funds
Assets					
Cash and cash equivalents	\$ 362,240	\$ 76,029	\$ 438,269	\$ 752	\$ 439,021
Receivables:					
Member contributions	22,006	4,957	26,963		26,963
Employer contributions	27,181	18,596	45,777		45,777
Accrued interest	88,666	18,610	107,276		107,276
Accrued dividends	25,731	5,400	31,131		31,131
Derivative instruments	557,809	117,075	674,884		674,884
Real estate income	75	16	91		91
Investments sold	980,820	205,859	1,186,679		1,186,679
Total receivables	1,702,288	370,513	2,072,801		2,072,801
Due from other funds	8,407		8,407	293	8,700
Due from component units	8,164		8,164	5	8,169
Investments, at fair value:					
Government bonds	7,142,965	1,499,198	8,642,163		8,642,163
Corporate bonds	4,406,274	924,808	5,331,082		5,331,082
Corporate stocks	10,690,206	2,243,709	12,933,915		12,933,915
Derivative instruments	3,524	740	4,264		4,264
Private equities	21,996	4,617	26,613		26,613
Real estate	804,412	168,833	973,245		973,245
Total investments	23,069,377	4,841,905	27,911,282		27,911,282
Total assets	25,150,476	5,288,447	30,438,923	1,050	30,439,973
Liabilities					
Accounts payable and accruals	980,209	206,271	1,186,480	1	1,186,481
Derivative instruments	560,589	117,659	678,248		678,248
Total liabilities	1,540,798	323,930	1,864,728	1	1,864,729
Net assets					
Held in trust for:					
Pension benefits	23,609,678	4,964,517	28,574,195		28,574,195
Employees' flexible benefits				1,049	1,049
Total net assets	\$ 23,609,678	\$ 4,964,517	\$ 28,574,195	\$ 1,049	\$ 28,575,244

State of Tennessee
Combining Statement of Changes in Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEPP)	Political Subdivisions Pension Plan (PSPP)	Total Pension	Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
Additions					
Contributions:					
Members	\$ 190,635	\$ 64,414	\$ 255,049	\$ 8,725	\$ 263,774
Employers	578,403	258,324	836,727		836,727
Total contributions	769,038	322,738	1,091,776	8,725	1,100,501
Investment income:					
Net increase in fair value of investments	1,494,405	307,909	1,802,314		1,802,314
Interest	482,315	99,369	581,684		581,684
Dividends	226,610	46,687	273,297		273,297
Real estate income	52,952	10,910	63,862		63,862
Total investment income	2,256,282	464,875	2,721,157		2,721,157
Less: Investment expenses	23,877	4,934	28,811		28,811
Net investment income	2,232,405	459,941	2,692,346		2,692,346
Total additions	3,001,443	782,679	3,784,122	8,725	3,792,847
Deductions					
Annuity benefits:					
Retirement benefits	1,081,425	185,169	1,266,594		1,266,594
Cost of living	231,084	30,395	261,479		261,479
Death benefits	4,694	2,420	7,114		7,114
Other benefits				8,660	8,660
Refunds	19,371	17,052	36,423		36,423
Administrative expenses	3,924	3,619	7,543		7,543
Total deductions	1,340,498	238,655	1,579,153	8,660	1,587,813
Change in net assets held in trust for:					
Pension benefits	1,660,945	544,024	2,204,969		2,204,969
Employees' flexible benefits				65	65
Net assets, July 1	21,948,733	4,420,493	26,369,226	984	26,370,210
Net assets, June 30	\$ 23,609,678	\$ 4,964,517	\$ 28,574,195	\$ 1,049	\$ 28,575,244

State of Tennessee
Combining Statement of Fiduciary Net Assets
Private-Purpose Trust Funds
June 30, 2010

(Expressed in Thousands)

	Baccalaureate Education	Children in State Custody	Oak Ridge Monitoring	TNInvestco	Other	Total Private-Purpose Trust Funds
Assets						
Cash and cash equivalents	\$ 2,944	\$ 1,595	\$ 11,485	\$ 9,323	\$ 2,046	\$ 27,393
Receivables:						
Taxes					43	43
Interest and dividends	626					626
Other	60					60
Total receivables	686				43	729
Due from other funds	9					9
Investments, at fair value:						
Mutual funds	77,526					77,526
Total investments	77,526					77,526
Total assets	81,165	1,595	11,485	9,323	2,089	105,657
Liabilities						
Accounts payable and accruals	663	1				664
Total liabilities	663	1				664
Net assets						
Held in trust for:						
Individuals, organizations and other governments	\$ 80,502	\$ 1,594	\$ 11,485	\$ 9,323	\$ 2,089	\$ 104,993

State of Tennessee
Combining Statement of Changes in Fiduciary Net Assets
Private-Purpose Trust Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Baccalaureate Education	Children in State Custody	Oak Ridge Monitoring	TNInvestco	Other	Total Private-Purpose Trust Funds
Additions						
Contributions:						
Federal		\$ 5,753	\$ 1,000			\$ 6,753
Private	\$ 3,677			\$ 19,747	\$ 419	23,843
Other		1,844			44,212	46,056
	<u>3,677</u>	<u>7,597</u>	<u>1,000</u>	<u>19,747</u>	<u>44,631</u>	<u>76,652</u>
Total contributions						
	<u>3,677</u>	<u>7,597</u>	<u>1,000</u>	<u>19,747</u>	<u>44,631</u>	<u>76,652</u>
Investment income:						
Net increase in fair value of investments	5,944					5,944
Interest	2,323	6	39	17	10	2,395
	<u>8,267</u>	<u>6</u>	<u>39</u>	<u>17</u>	<u>10</u>	<u>8,339</u>
Total investment income						
	<u>8,267</u>	<u>6</u>	<u>39</u>	<u>17</u>	<u>10</u>	<u>8,339</u>
Total additions	<u>11,944</u>	<u>7,603</u>	<u>1,039</u>	<u>19,764</u>	<u>44,641</u>	<u>84,991</u>
Deductions						
Payments made under trust agreements	7,443	3,366		7,323	44,485	62,617
Refunds	659	2,161				2,820
Administrative expenses	392	1,856		3,118		5,366
	<u>8,494</u>	<u>7,383</u>		<u>10,441</u>	<u>44,485</u>	<u>70,803</u>
Total deductions						
	<u>8,494</u>	<u>7,383</u>		<u>10,441</u>	<u>44,485</u>	<u>70,803</u>
Change in net assets held in trust for:						
Individuals, organizations and other governments	3,450	220	1,039	9,323	156	14,188
Net assets, July 1	<u>77,052</u>	<u>1,374</u>	<u>10,446</u>	<u>-</u>	<u>1,933</u>	<u>90,805</u>
Net assets, June 30	<u>\$ 80,502</u>	<u>\$ 1,594</u>	<u>\$ 11,485</u>	<u>\$ 9,323</u>	<u>\$ 2,089</u>	<u>\$ 104,993</u>

State of Tennessee
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2010

(Expressed in Thousands)

	Local Government	Contingent Revenue	Retiree Health Plans	Total Agency Funds
Assets				
Cash and cash equivalents	\$ 285,334	\$ 115,862	\$ 21,074	\$ 422,270
Receivables:				
Accounts		16	1,188	1,204
Taxes	<u>366,726</u>			<u>366,726</u>
 Total assets	 <u>652,060</u>	 <u>115,878</u>	 <u>22,262</u>	 <u>790,200</u>
Liabilities				
Accounts payable and accruals	652,060	14,767	15,434	682,261
Amounts held in custody for others		<u>101,111</u>	<u>6,828</u>	<u>107,939</u>
 Total liabilities	 <u><u>\$ 652,060</u></u>	 <u><u>\$ 115,878</u></u>	 <u><u>\$ 22,262</u></u>	 <u><u>\$ 790,200</u></u>

State of Tennessee
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

<u>Local Government Fund</u>	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
<u>Assets</u>				
Cash and cash equivalents	\$ 273,462	\$ 2,967,574	\$ 2,955,702	\$ 285,334
Accounts receivable	356,307	515,224	504,805	366,726
Total assets	<u>629,769</u>	<u>3,482,798</u>	<u>3,460,507</u>	<u>652,060</u>
<u>Liabilities</u>				
Accounts payable and accruals	629,769	3,144,783	3,122,492	652,060
Total liabilities	<u>\$ 629,769</u>	<u>\$ 3,144,783</u>	<u>\$ 3,122,492</u>	<u>\$ 652,060</u>
<u>Contingent Revenue Fund</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 96,722	\$ 2,036,769	\$ 2,017,629	\$ 115,862
Accounts receivable	5	905	894	16
Due from other funds	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total assets	<u>96,727</u>	<u>2,037,675</u>	<u>2,018,524</u>	<u>115,878</u>
<u>Liabilities</u>				
Accounts payable and accruals	12,617	336,054	333,904	14,767
Amount held in custody for others	<u>84,110</u>	<u>733,763</u>	<u>716,762</u>	<u>101,111</u>
Total liabilities	<u>\$ 96,727</u>	<u>\$ 1,069,817</u>	<u>\$ 1,050,666</u>	<u>\$ 115,878</u>
<u>Retiree Health Plans</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 21,486	\$ 224,255	\$ 224,667	\$ 21,074
Accounts receivable	<u>1,446</u>	<u>7,494</u>	<u>7,752</u>	<u>1,188</u>
Total assets	<u>22,932</u>	<u>231,749</u>	<u>232,419</u>	<u>22,262</u>
<u>Liabilities</u>				
Accounts payable	17,607	29,364	31,537	15,434
Amount held in custody for others	<u>5,325</u>	<u>7,206</u>	<u>5,703</u>	<u>6,828</u>
Total liabilities	<u>\$ 22,932</u>	<u>\$ 36,570</u>	<u>\$ 37,240</u>	<u>\$ 22,262</u>
<u>Totals - All Agency Funds</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 391,670	\$ 5,228,598	\$ 5,197,998	\$ 422,270
Accounts receivable	357,758	523,623	513,451	367,930
Due from other funds	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total assets	<u>749,428</u>	<u>5,752,222</u>	<u>5,711,450</u>	<u>790,200</u>
<u>Liabilities</u>				
Accounts payable and accruals	659,993	3,510,201	3,487,933	682,261
Amount held in custody for others	<u>89,435</u>	<u>740,969</u>	<u>722,465</u>	<u>107,939</u>
Total liabilities	<u>\$ 749,428</u>	<u>\$ 4,251,170</u>	<u>\$ 4,210,398</u>	<u>\$ 790,200</u>

COMPONENT UNITS

Tennessee Student Assistance Corporation—This fund is used to account for the guaranteed loans program administered by Tennessee Student Assistance Corporation (TSAC).

Tennessee Community Services Agency—In 1989, the Legislature created twelve Community Services Agencies which are to provide a mechanism to coordinate health care for indigents. In 1996, the title and focus of these agencies changed to that of facilitating the providing of services to children and other citizens from state agencies. The State has significant oversight responsibilities for these agencies, therefore, they have been incorporated into the Comprehensive Annual Financial Report. In 2009, all CSAs merged operations into one agency.

Housing Development Agency—Created by the legislature in 1973, the purpose of this agency is to improve the quality of housing available to lower and moderate income Tennesseans. This objective is accomplished in part by (1) making funds available for loans for residential construction or rehabilitation, (2) making or participating in the making of insured mortgage loans and (3) purchasing existing mortgages from lending institutions. These programs are funded primarily from the sale of revenue bonds or notes.

Tennessee Education Lottery Corporation—Created by the General Assembly in 2003, the purpose of the corporation is to operate a state lottery with net proceeds to be transferred to the State to be used for education programs and purposes in accordance with the Constitution of Tennessee, consisting primarily of financial assistance to Tennessee citizens to enable such citizens to attend post-secondary educational institutions within Tennessee.

Tennessee Board of Regents—The Tennessee University and Community College System was created by the General Assembly in 1972. Its member institutions (six universities, thirteen community colleges, and twenty-seven technology centers) serve the state and its citizenry by providing education opportunities, research, continuing education and public activities. As a system, the institutions span the state and operate as a coordinated network of public education with each campus offering unique characteristics and services. The system consists of the following institutions:

UNIVERSITIES

Austin Peay State University, Clarksville
East Tennessee State University, Johnson City
Middle Tennessee State University, Murfreesboro

Tennessee State University, Nashville
Tennessee Technological University, Cookeville
University of Memphis, Memphis

COMMUNITY COLLEGES

Chattanooga State Technical Community College, Chattanooga
Cleveland State Community College, Cleveland
Columbia State Community College, Columbia
Dyersburg State Community College, Dyersburg
Jackson State Community College, Jackson
Motlow State Community College, Tullahoma
Northeast State Technical Community College, Blountville

Nashville State Technical Community College, Nashville
Pellissippi State Technical Community College, Knoxville
Roane State Community College, Harriman
Southwest Tennessee Community College, Memphis
Volunteer State Community College, Gallatin
Walters State Community College, Morristown

TECHNOLOGY CENTERS

Athens	Crump	Hartsville	Knoxville	Memphis	Newbern	Ripley
Chattanooga	Dickson	Hohenwald	Livingston	Morristown	Oneida	Shelbyville
Covington	Elizabethton	Jacksboro	McKenzie	Murfreesboro	Paris	Whiteville
Crossville	Harriman	Jackson	McMinnville	Nashville	Pulaski	

The purpose of the technology centers is to provide occupational and technical training for current and future employees of existing and prospective industries and businesses of this state.

The University of Tennessee Board of Trustees—The University of Tennessee was first established in 1794 by the Legislature of the Federal Territory. Since that time, it has grown into an institution of twenty-four different colleges and schools. The locations of its four

primary campuses, various experimental stations and extension services have made the university state-wide in physical presence as well as in services. The main campus is located in Knoxville. The other primary campuses are located in Memphis, Martin and Chattanooga.

Local Development Authority—This authority was created in 1978 for the purpose of providing to local governments, through the issuing of revenue bonds or notes, the financing assistance previously provided by the State Loan Program. The Authority has also issued bonds to assist non-profit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. In addition, the Authority may assist small business concerns in financing pollution control facilities, farmers in financing certain capital improvements and airport authorities and municipal airports in financing improvements.

Veterans' Homes Board—Created in 1988, the primary purpose of the homes is to provide support and care for honorably discharged veterans of the United States Armed Forces. The revenue sources are the Veterans' Administration, Medicaid, and a user fee.

Tennessee State School Bond Authority (TSSBA)—Established in 1965, the TSSBA provides a mechanism for financing building projects for the state's universities. Agreements are executed between the governing boards of the institutions and the TSSBA, and revenue bonds are issued using the constructed facilities as collateral. Charges levied on the universities provide the funds necessary for payment of principal and interest on bonds. In addition, the Authority issues Qualified Zone Academy Bonds, which are part of a federal government program to finance loans to qualifying K-12 schools in the state.

Certified Cotton Growers' Organization—This organization was formed to aid in the eradication of the boll weevil. Revenues are collected from assessments on cotton growers and from state appropriations.

Access Tennessee—Established in 2007, this health insurance pool offers health insurance coverage to eligible citizens of the state who are considered uninsurable because of health conditions.

State of Tennessee
Combining Statement of Net Assets
Component Units
June 30, 2010

(Expressed in Thousands)

	Governmental Fund Types		Proprietary Fund Types			
	Tennessee Student Assistance Corporation	Tennessee CSA	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee
Assets						
Cash and cash equivalents	\$ 9,396	\$ 257	\$ 270,188	\$ 68,315	\$ 754,427	\$ 806,297
Investments			30,222		450,929	682,677
Investments with fiscal agent						
Receivables, net	9,981	1,370	64,496	47,706	178,405	332,050
Due from primary government		1,240			15,721	8,874
Inventories, at cost					4,979	7,473
Prepayments		13		6,543	6,420	129
Loans receivable			2,118,550			
Deferred charges and other			13,209		5,912	8,169
Deferred outflow- derivatives						
Restricted assets:						
Cash and cash equivalents			234,268	7		
Investments			181,751	2,241		
Receivables, net			2,169			
Capital assets:						
Land, at cost					100,822	68,531
Infrastructure					262,838	71,533
Structures and improvements, at cost				401	2,089,177	1,898,994
Machinery and equipment, at cost		700	346	4,760	446,945	521,055
Less accumulated depreciation		(659)	(267)	(3,802)	(1,186,867)	(1,038,300)
Construction in progress					217,971	210,466
Total assets	19,377	2,921	2,914,932	126,171	3,347,679	3,577,948
Liabilities						
Accounts payable and accruals	9,532	1,546	62,567	37,443	113,501	141,608
Due to primary government	12	60	57	84,560	5,706	5,334
Deferred revenue	229		1,862	705	67,046	83,380
Fair value of derivatives						
Other					21,335	12,382
Noncurrent liabilities:						
Due within one year	112	118	129,279	579	34,952	69,906
Due in more than one year	356	328	2,202,405	2,877	652,643	770,464
Total liabilities	10,241	2,052	2,396,170	126,164	895,183	1,083,074
Net assets						
Invested in capital assets, net of related debt		41	79	1,359	1,406,876	1,112,139
Restricted for:						
Debt service					22,631	1,365
Capital projects					17,215	89,241
Single family bond programs			504,955			
Other			9,428	7	144,043	361,936
Permanent and endowment:						
Expendable					9,713	52,309
Nonexpendable					254,231	487,849
Unrestricted	9,136	828	4,300	(1,359)	597,787	390,035
Total net assets	\$ 9,136	\$ 869	\$ 518,762	\$ 7	\$ 2,452,496	\$ 2,494,874

Proprietary Fund Types					
Local Development Authority	Veterans' Homes Board	State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Component Units
\$ 22,536	\$ 4,854	\$ 39,682	\$ 1,716	\$ 49,253	\$ 2,026,921
		14			1,163,828
	2,931	6,992	5	23	14
	844				643,959
	177				26,679
	55				12,629
87,261		1,122,932			13,160
389	143	10,007	2,096		3,328,743
		1,613			39,925
					1,613
5,419	3,376	183,061			426,131
		36,896			220,888
					2,169
	406				169,759
	1,691				336,062
	30,164				4,018,736
	4,965				978,771
	(9,025)				(2,238,920)
	2				428,439
115,605	40,583	1,401,197	3,817	49,276	11,599,506
752	1,073	29,056	56	3,892	401,026
	189	7			95,925
		5,691		1	158,914
		1,613			1,613
	200				33,917
57,449	847	41,923			335,165
44,712	5,654	1,314,863			4,994,302
102,913	7,963	1,393,153	56	3,893	6,020,862
	22,268				2,542,762
	293				24,289
					106,456
					504,955
205	2,947				518,566
					62,022
					742,080
12,487	7,112	8,044	3,761	45,383	1,077,514
\$ 12,692	\$ 32,620	\$ 8,044	\$ 3,761	\$ 45,383	\$ 5,578,644

State of Tennessee
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2010

(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Component units					
Higher education institutions:					
Board of Regents	\$ 2,253,852	\$ 784,612	\$ 803,378	\$ 101,569	\$ (564,293)
University of Tennessee	1,730,017	542,744	774,679	145,055	(267,539)
Total higher education institutions	3,983,869	1,327,356	1,578,057	246,624	(831,832)
Loan programs:					
Tennessee Student Assistance Corporation	81,972	15,889	18,511		(47,572)
Housing Development Agency	396,305	136,160	268,805		8,660
Local Development Authority	2,688	2,311	93		(284)
State School Bond Authority	43,810	43,377	386		(47)
Total loan programs	524,775	197,737	287,795		(39,243)
Lottery program	1,064,216	1,063,967	45		(204)
Other programs:					
Tennessee CSA	12,416	3,260	8,108		(1,048)
Access Tennessee Insurance Plan	40,996	15,612			(25,384)
Veterans' Homes Board	34,337	34,573	77	326	639
Certified Cotton Growers'	822	1,339	566		1,083
Total other programs	88,571	54,784	8,751	326	(24,710)
Total	\$ 5,661,431	\$ 2,643,844	\$ 1,874,648	\$ 246,950	\$ (895,989)

General Revenues				Contributions to Permanent Funds	Change In Net Assets	Net Assets July 1	Net Assets June 30
Payments from Primary Government	Unrestricted Grants and Contributions	Unrestricted Investment Earnings	Miscellaneous				
\$ 665,212	\$ 142,702	\$ 7,066	\$ 9,024	\$ 7,253	\$ 266,964	\$ 2,185,532	\$ 2,452,496
471,937	797	17,325		37,060	259,580	2,235,294	2,494,874
1,137,149	143,499	24,391	9,024	44,313	526,544	4,420,826	4,947,370
48,731		129			1,159	7,977	9,136
2,215					8,789	509,973	518,762
					1,931	10,761	12,692
					(47)	8,091	8,044
50,946		129			11,832	536,802	548,634
		211			7	-	7
		1			(1,047)	1,916	869
23,049		161			(2,174)	47,557	45,383
	20				659	31,961	32,620
		3			1,086	2,675	3,761
23,049	20	165			(1,476)	84,109	82,633
\$ 1,211,144	\$ 143,519	\$ 24,896	\$ 9,024	\$ 44,313	\$ 536,907	\$ 5,041,737	\$ 5,578,644

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State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund Type Component Units
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Tennessee Student Assistance Corporation	Tennessee CSA	Total Governmental Fund Type Component Units
Revenues			
Interest on investments	\$ 577	\$ 1	\$ 578
Federal	10,556		10,556
Departmental services	71,998	11,368	83,366
	<u>83,131</u>	<u>11,369</u>	<u>94,500</u>
Expenditures			
Education	81,877		81,877
Health and social services		12,346	12,346
	<u>81,877</u>	<u>12,346</u>	<u>94,223</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,254</u>	<u>(977)</u>	<u>277</u>
 Fund balances, July 1	 <u>8,350</u>	 <u>2,252</u>	 <u>10,602</u>
Fund balances, June 30	\$ <u><u>9,604</u></u>	\$ <u><u>1,275</u></u>	\$ <u><u>10,879</u></u>
 Reconciliation to net assets:			
Fund balances per above	\$ 9,604	\$ 1,275	\$ 10,879
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		41	41
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.	<u>(468)</u>	<u>(447)</u>	<u>(915)</u>
Net assets on Statement of Net Assets	\$ <u><u>9,136</u></u>	\$ <u><u>869</u></u>	\$ <u><u>10,005</u></u>

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund Type Component Units
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Local Development Authority
Operating revenues					
Charges for services	\$ 136,160	\$ 1,063,516	\$ 1,014,501	\$ 931,898	\$ 2,311
Investment income	14,517		1,271	6,298	93
Other		451	55,766	29,625	
Total operating revenues	150,677	1,063,967	1,071,538	967,821	2,404
Operating expenses					
Personal services	13,841	11,134	1,283,539	1,149,709	
Contractual services	3,315	100,275			152
Mortgage service fees	7,394				
Materials and supplies	321		484,116	406,203	
Rentals and insurance	90	1,730			
Interest	93,154				2,451
Depreciation and amortization	781	769	96,813	97,795	64
Lottery prizes		651,148			
Nursing home services					
Scholarships and fellowships			359,881	45,389	
Benefits					
Other	6,935	10,249			21
Total operating expenses	125,831	775,305	2,224,349	1,699,096	2,688
Operating income (loss)	24,846	288,662	(1,152,811)	(731,275)	(284)
Nonoperating revenues (expenses)					
Grant income	254,417		628,977	211,144	
Grant expense	(270,474)				
Interest expense			(21,793)	(24,491)	
Interest income		211	33,779	124,210	
Payments from primary government			665,212	471,937	2,215
Grants and contributions				5,184	
Gifts			7,291	25,920	
Payments to primary government		(288,873)			
Other		7	(4,441)	(6,429)	
Total nonoperating revenues (expenses)	(16,057)	(288,655)	1,309,025	807,475	2,215
Income (loss) before capital grants and contributions	8,789	7	156,214	76,200	1,931
Capital payments from primary government			88,763	91,550	
Capital grants and gifts			13,420	53,505	
Additions to permanent endowments			9,180	37,060	
Other			(613)	1,265	
Change in net assets	8,789	7	266,964	259,580	1,931
Net assets, July 1	509,973	-	2,185,532	2,235,294	10,761
Net assets, June 30	\$ 518,762	\$ 7	\$ 2,452,496	\$ 2,494,874	\$ 12,692

Veterans' Homes Board	State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Proprietary Fund Type Component Units
\$ 29,231	\$ 43,377	\$ 1,339	\$ 15,612	\$ 3,237,945
	386			22,565
36				85,878
29,267	43,763	1,339	15,612	3,346,388
23,376				2,481,599
	773	821	494	105,830
				7,394
				890,640
				1,820
	42,114			137,719
1,374	632			198,228
				651,148
9,309				9,309
				405,270
			39,802	39,802
	291	1	700	18,197
34,059	43,810	822	40,996	4,946,956
(4,792)	(47)	517	(25,384)	(1,600,568)
5,306				1,099,844
(287)				(270,474)
77		3	161	(46,571)
			23,049	158,441
				1,162,413
20				5,184
				33,231
9		566		(288,873)
				(10,288)
5,125		569	23,210	1,842,907
333	(47)	1,086	(2,174)	242,339
325				180,638
1				66,926
				46,240
				652
659	(47)	1,086	(2,174)	536,795
31,961	8,091	2,675	47,557	5,031,844
\$ 32,620	\$ 8,044	\$ 3,761	\$ 45,383	\$ 5,568,639

State of Tennessee
Statement of Fiduciary Net Assets
Component Units
Tennessee Student Assistance Corporation
Federal Family Education Loan Trust
June 30, 2010

(Expressed in Thousands)

Assets

Cash and cash equivalents	\$	96,805
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Receivables:

Due from other governments		6,993
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Total receivables		6,993
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Total assets		103,798
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Liabilities

Accounts payable and accruals		23
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Total liabilities		23
-------------------	--	----

Net assets

Held in trust for student loans	\$	103,775
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State of Tennessee
Statement of Changes in Fiduciary Net Assets
Component Units
Tennessee Student Assistance Corporation
Federal Family Education Loan Trust
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

Additions	
Federal revenue	\$ 29,965
Interest income	357
Contribution from primary government	<u>1,182</u>
Total additions	<u>31,504</u>
Deductions	
Collection costs	22,521
Administrative expenses	<u>9,882</u>
Total deductions	<u>32,403</u>
Change in net assets held in trust	(899)
Net assets, July 1	<u>104,674</u>
Net assets, June 30	\$ <u><u>103,775</u></u>

SUPPLEMENTARY SCHEDULES

State of Tennessee
Debt Service Requirements to Maturity
General Obligation Bonds
June 30, 2010

Schedule 1

(Expressed in Thousands)

For the Year Ended June 30	General Long-Term Debt (Note 1)			Facilities Revolving Fund Debt (Note 2)		
	Principal	Interest	Total Require- ments	Principal	Interest	Total Require- ments
2011	\$ 119,050	\$ 58,732	\$ 177,782	\$ 18,044	\$ 8,041	\$ 26,085
2012	114,807	54,036	168,843	17,984	7,251	25,235
2013	115,251	49,002	164,253	18,173	6,421	24,594
2014	109,552	44,022	153,574	17,640	5,589	23,229
2015	105,027	38,943	143,970	14,066	4,759	18,825
2016	100,806	34,319	135,125	12,899	4,224	17,123
2017	96,379	29,955	126,334	11,892	3,671	15,563
2018	88,242	26,882	115,124	10,836	3,348	14,184
2019	80,165	23,663	103,828	9,467	2,988	12,455
2020	76,912	20,384	97,296	9,051	2,606	11,657
2021	69,794	17,691	87,485	8,229	2,292	10,521
2022	69,719	14,789	84,508	8,210	1,955	10,165
2023	61,909	12,531	74,440	7,340	1,700	9,040
2024	61,748	9,960	71,708	7,331	1,383	8,714
2025	53,707	7,398	61,105	7,014	1,063	8,077
2026	53,810	5,058	58,868	6,990	773	7,763
2027	48,253	2,863	51,116	5,133	524	5,657
2028	43,507	894	44,401	4,418	327	4,745
2029	37,083	(460)	36,623	3,107	190	3,297
2030	10,812	(36)	10,776	1,532	77	1,609
TOTALS	<u>\$ 1,516,533</u>	<u>\$ 450,626</u>	<u>\$ 1,967,159</u>	<u>\$ 199,356</u>	<u>\$ 59,182</u>	<u>\$ 258,538</u>

Note 1: General obligation bonds principal is more than that presented in the accompanying financial statements by \$23.933 million, which is a deduction from bonds payable for the deferred amount on refunding.

Note 2: Facilities Revolving Fund principal is more than that presented in the accompanying financial statements by \$3.136 million, which is a deduction from bonds payable for the deferred amount on refunding.

State of Tennessee
Schedule of Outstanding Debt
All Fund Types
For the Last Five Fiscal Years

Schedule 2

(Expressed in Thousands)

	June 30				
	2006	2007	2008	2009	2010
Enterprise Funds:					
State Loan Program General Obligation Bonds	\$ 3,378	\$ 2,534	\$ 1,655		
Internal Service Funds:					
General Obligation Commercial Paper	22,899	15,541	39,819	\$ 48,715	\$ 70,107
Facilities Revolving Fund General Obligation Bonds	151,829	152,191	164,545	182,081	196,220
	174,728	167,732	204,364	230,796	266,327
General Long-Term Debt:					
General Obligation Bonds	944,936	963,297	1,010,858	1,356,861	1,492,600
General Obligation Commercial Paper	121,726	115,283	200,807	127,593	171,283
	1,066,662	1,078,580	1,211,665	1,484,454	1,663,883
Totals for Primary Government	\$ 1,244,768	\$ 1,248,846	\$ 1,417,684	\$ 1,715,250	\$ 1,930,210

State of Tennessee
Schedule of General Obligation
Commercial Paper Outstanding- By Purpose
All Fund Types
June 30, 2010

Schedule 3

(Expressed in Thousands)

General Obligation Commercial Paper - Tax Exempt	\$ 214,463
Purpose: To finance the construction, improvements, repairs, and replacements of buildings and facilities and the acquisition of land, equipment and other property of the state.	
General Obligation Commercial Paper - Taxable	26,927
Purpose: To finance improvements to Mental Health and Mental Retardation Facilities and grants to local governments.	
Total Outstanding	\$ 241,390

State of Tennessee
Schedule of Outstanding Debt
Component Units
For the Last Five Fiscal Years

Schedule 4

(Expressed in Thousands)

	June 30				
	2006	2007	2008	2009	2010
Component units:					
Mid-Cumberland Community Services Agency notes	\$ 13				
Certified Cotton Growers' notes	19,073	\$ 16,725	\$ 9,294		
Local Development Authority notes	35,401	57,773	56,998	\$ 53,288	\$ 53,919
Local Development Authority bonds	62,053	58,806	55,410	51,888	48,242
Tennessee Housing Development Agency bonds	1,568,472	1,812,267	1,952,295	1,972,561	2,316,748
Tennessee Housing Development Agency notes	262,395	247,675	88,720	3,250	3,672
Veterans' Homes Board loan	6,265	6,283	6,231	5,953	5,936
Tennessee State School Bond Authority bonds	582,815	604,747	696,340	945,461	1,075,004
Tennessee State School Bond Authority commercial paper	129,046	164,195	243,229	174,300	281,782
University of Tennessee notes	307	284	260	235	211
University of Tennessee bonds	148,333	146,471	86,518	85,118	83,644
Board of Regents notes	300	250	2,597	2,478	2,222
Board of Regents bonds				800	700
Board of Regents commercial paper			1,668	4,161	6,431
	<u>\$ 2,814,473</u>	<u>\$ 3,115,476</u>	<u>\$ 3,199,560</u>	<u>\$ 3,299,493</u>	<u>\$ 3,878,511</u>

State of Tennessee
Comparative Schedules of Revenues by Source
General Fund
For the Fiscal Years Ended June 30, 2010 and 2009

Schedule 5

(Expressed in Thousands)

Revenues by Source	For the Year Ended	
	June 30, 2010	June 30, 2009
Taxes:		
Sales and use	\$ 2,525,347	\$ 2,578,721
Gasoline	8,892	9,394
Motor fuel	2,921	2,929
Gasoline inspection	3,576	897
Total fuel taxes	15,389	13,220
Franchise	504,125	512,080
Excise	664,644	638,483
Gross receipts	347,113	313,393
Beer	14,416	15,560
Alcoholic beverage	45,492	44,081
Mixed drink	27,804	27,047
Tobacco	25,468	30,962
Business	145,758	135,037
Insurance companies premium	538,051	379,137
Retaliatory	9,527	12,699
Workers compensation premium	36,045	44,087
Medicaid provider	7,985	20,968
Other	2,151	2,483
Total business taxes	2,368,579	2,176,017
Income	190,325	220,450
Privilege	221,307	232,530
Inheritance and estate	88,867	80,140
Other	(1,318)	993
Total other taxes	499,181	534,113
Total taxes	5,408,496	5,302,071
Licenses, fines, fees and permits:		
Motor vehicle registration	41,598	41,549
Motor vehicle title registration fees	7,701	7,330
Drivers licenses	24,613	24,033
Arrests, fines and fees	8,224	8,194
Regulatory board fees	123,657	119,309
Other	80,826	86,529
Total licenses, fines, fees and permits	286,619	286,944
Interest on investments	12,875	45,196
Federal - earned by state departments	10,019,856	8,330,499
Departmental services:		
Charges to the public	315,795	355,049
Interdepartmental charges	1,431,735	1,444,057
Charges to cities, counties, etc.	309,799	399,945
Total departmental services	2,057,329	2,199,051
Other	189,612	222,311
Total revenues by source	\$ 17,974,787	\$ 16,386,072

State of Tennessee
Comparative Schedules of Expenditures by Function and Department
General Fund
For the Fiscal Years Ended June 30, 2010 and 2009

Schedule 6

(Expressed in Thousands)

<u>Expenditures by function and department</u>	For the Year Ended	
	June 30, 2010	June 30, 2009
General government:		
Legislative	\$ 37,642	\$ 38,013
Secretary of State	37,109	39,560
Comptroller	83,063	87,455
Treasurer	46,221	46,936
Governor	3,360	3,591
Commissions	75,099	78,507
Finance and Administration	87,413	93,594
Personnel	11,987	12,494
General Services	17,482	20,478
Revenue	102,397	105,142
Miscellaneous Appropriations	32,887	29,283
Total general government	534,660	555,053
Health and social services:		
Veterans Affairs	4,600	4,605
Labor and Workforce Development	244,963	223,726
TennCare	8,188,421	7,688,345
Mental Health	295,178	300,615
Mental Retardation	863,965	858,142
Health	507,259	528,109
Human Services	3,076,558	2,468,255
Cover Tennessee	175,666	144,158
Children's Services	660,793	675,398
Total health and social services	14,017,403	12,891,353
Law, justice and public safety:		
Judicial	284,971	280,505
Correction	621,536	625,477
Probation and Paroles	80,590	78,459
Military	91,767	85,993
Bureau of Criminal Investigation	63,228	64,194
Safety	154,081	153,773
Total law, justice and public safety	1,296,173	1,288,401
Recreation and resources development:		
Agriculture	71,392	78,872
Tourist Development	17,492	17,751
Environment and Conservation	218,702	217,168
Economic and Community Development	83,939	110,228
Total recreation and resources development	391,525	424,019
Regulation of business and professions:		
Commerce and Insurance	70,084	71,045
Financial Institutions	14,144	13,655
Total regulation of business and professions	84,228	84,700
Intergovernmental revenue sharing	538,867	527,857
Total expenditures by function and department	\$ 16,862,856	\$ 15,771,383

STATISTICAL SECTION

STATISTICAL SECTION

This part of the State of Tennessee's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the state's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends These schedules contain trend information to help the reader understand how the state's financial performance and well-being have changed over time.	196
Revenue Capacity These schedules contain information to help the reader assess the state's most significant local revenue sources, the sales tax.	200
Debt Capacity These schedules present information to help the reader assess the affordability of the state's current levels of outstanding debt and the state's ability to issue additional debt in the future.	202
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the state's financial activities take place.	204
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the state's financial report relates to the services the state provides and the activities it performs.	205
Component Units These schedules contain debt information related to the University of Tennessee and the Tennessee Board of Regent's institutions – component units of the state. The schedules assist in understanding the resources available to pay debt service.	207
Index Page references for Securities and Exchange Commission disclosures contained in this report.	212

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The State implemented GASB Statement 34 in fiscal year ended June 30, 2002; schedules presenting government-wide information include information beginning in that year.

STATE OF TENNESSEE
FINANCIAL TRENDS - CHANGES IN NET ASSETS
LAST NINE FISCAL YEARS
(accrual basis of accounting, expressed in thousands)

(continued on next page)

	FOR THE FISCAL YEAR ENDED JUNE 30,								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Expenses									
Governmental activities:									
General government	\$ 514,419	\$ 510,674	\$ 546,996	\$ 596,016	\$ 705,897	\$ 738,897	\$ 837,250	\$ 988,309	\$ 1,078,294
Education	4,326,480	4,520,624	4,692,605	5,158,369	5,449,613	5,884,841	6,464,564	6,520,569	6,893,801
Health and social services	8,499,713	9,507,209	10,583,726	11,522,061	10,170,957	10,448,373	11,125,967	11,697,900	12,849,335
Law, justice, and public safety	918,970	968,859	1,032,302	1,090,779	1,214,957	1,221,175	1,325,500	1,338,869	1,365,134
Recreation and resources development (2)	362,068	376,734	479,251	423,342	466,689	485,852	613,902	538,386	499,080
Regulation of business and professions	59,493	64,109	81,940	113,902	86,945	129,107	123,391	126,003	132,784
Transportation	683,229	726,476	787,646	698,450	671,641	835,751	808,591	979,454	1,010,029
Intergovernmental revenue sharing	686,515	641,271	647,654	683,925	738,349	815,832	842,096	810,063	874,094
Interest on long-term debt	55,114	50,610	51,819	42,902	49,460	50,003	51,086	51,977	60,566
Payments to fiduciary fund						25,950			19,747
Total governmental activities expenses	<u>16,106,001</u>	<u>17,366,566</u>	<u>18,903,939</u>	<u>20,329,746</u>	<u>19,554,508</u>	<u>20,635,781</u>	<u>22,192,347</u>	<u>23,051,530</u>	<u>24,782,864</u>
Business-type activities:									
Employment security (3)	739,008	767,202	639,993	476,646	452,043	467,327	541,573	1,427,713	2,135,537
Insurance programs	353,534	379,661	416,871	430,568	471,032	413,483	469,491	514,065	557,371
Loan programs	2,585	2,273	1,737	1,909	1,487	1,473	1,655	1,345	1,406
Other	1,410	1,802	2,037	2,498	2,496	2,595	2,744	2,265	1,385
Total business-type activities expenses	<u>1,096,537</u>	<u>1,150,938</u>	<u>1,060,638</u>	<u>911,621</u>	<u>927,058</u>	<u>884,878</u>	<u>1,015,463</u>	<u>1,945,388</u>	<u>2,695,699</u>
Total primary government expenses	<u>\$ 17,202,538</u>	<u>\$ 18,517,504</u>	<u>\$ 19,964,577</u>	<u>\$ 21,241,367</u>	<u>\$ 20,481,566</u>	<u>\$ 21,520,659</u>	<u>\$ 23,207,810</u>	<u>\$ 24,996,918</u>	<u>\$ 27,478,563</u>
Program Revenues									
Governmental activities:									
Charges for services:									
General government	\$ 281,379	\$ 273,503	\$ 342,154	\$ 380,679	\$ 375,640	\$ 524,306	\$ 672,892	\$ 753,066	\$ 778,352
Education	10,155	15,922	16,966	13,568	26,785	34,819	35,405	35,124	44,813
Health and social services (1)	282,095	277,184	943,040	1,027,602	692,186	521,508	548,570	615,871	499,694
Law, justice, and public safety	341,615	336,115	313,386	316,337	374,715	130,885	117,536	122,064	121,201
Recreation and resources development	110,033	114,618	124,105	140,227	138,970	153,048	142,128	142,657	141,278
Regulation of business and professions	86,468	95,953	107,355	115,556	124,435	142,805	143,646	151,095	148,788
Transportation	13,045	13,339	13,636	15,494	15,118	22,542	18,778	15,936	28,322
Operating grants and contributions (4)	6,454,927	7,452,665	8,095,087	8,777,283	8,314,981	8,481,473	8,612,838	9,758,691	12,076,579
Capital grants and contributions	560,074	568,221	503,539	520,090	615,584	708,384	600,404	592,719	782,188
Total governmental activities program revenues	<u>8,139,791</u>	<u>9,147,520</u>	<u>10,459,268</u>	<u>11,306,836</u>	<u>10,678,414</u>	<u>10,719,770</u>	<u>10,892,197</u>	<u>12,187,225</u>	<u>14,621,215</u>
Business-type activities:									
Charges for services:									
Employment security	335,723	437,378	523,372	463,385	381,600	356,064	413,741	585,668	710,113
Insurance programs	338,085	385,384	422,584	462,441	479,515	438,275	480,803	504,130	525,662
Loan programs	13,449	12,590	12,733	12,878	12,970	13,803	15,137	15,684	16,584
Other	1,368	1,998	2,111	2,593	2,803	2,644	2,324	1,543	1,043
Operating grants and contributions (4)	342,469	256,444	208,296	100,536	131,043	116,569	124,576	508,249	1,482,113
Total business-type activities program revenues	<u>1,031,094</u>	<u>1,093,794</u>	<u>1,169,096</u>	<u>1,041,833</u>	<u>1,007,931</u>	<u>927,355</u>	<u>1,036,581</u>	<u>1,615,274</u>	<u>2,735,515</u>
Total primary government program revenues	<u>\$ 9,170,885</u>	<u>\$ 10,241,314</u>	<u>\$ 11,628,364</u>	<u>\$ 12,348,669</u>	<u>\$ 11,686,345</u>	<u>\$ 11,647,125</u>	<u>\$ 11,928,778</u>	<u>\$ 13,802,497</u>	<u>\$ 17,356,730</u>
Net (Expense)/Revenue									
Governmental activities	\$ (7,966,210)	\$ (8,219,046)	\$ (8,444,671)	\$ (9,022,910)	\$ (8,876,094)	\$ (9,916,011)	\$ (11,300,150)	\$ (10,864,307)	\$ (10,161,649)
Business-type activities	(65,443)	(57,144)	108,458	130,212	80,873	42,477	21,118	(330,114)	39,816
Total primary government net expense	<u>\$ (8,031,653)</u>	<u>\$ (8,276,190)</u>	<u>\$ (8,336,213)</u>	<u>\$ (8,892,698)</u>	<u>\$ (8,795,221)</u>	<u>\$ (9,873,534)</u>	<u>\$ (11,279,032)</u>	<u>\$ (11,194,421)</u>	<u>\$ (10,121,833)</u>

STATE OF TENNESSEE
FINANCIAL TRENDS - CHANGES IN NET ASSETS
LAST NINE FISCAL YEARS
(accrual basis of accounting, expressed in thousands)

(continued from previous page)

	FOR THE FISCAL YEAR ENDED JUNE 30,								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Revenues and Other Changes in Net Assets									
Governmental activities:									
Taxes									
Sales and use	\$ 4,656,105	\$ 5,478,642	\$ 5,806,268	\$ 6,099,159	\$ 6,540,224	\$ 6,819,570	\$ 6,851,481	\$ 6,326,857	\$ 6,170,977
Fuel	787,132	813,554	829,372	846,826	851,362	867,520	865,181	817,873	874,511
Business	1,696,812	1,981,099	2,099,081	2,311,448	2,507,653	2,799,751	2,913,227	2,671,226	2,944,465
Other	490,958	425,099	526,573	514,938	598,827	734,026	734,029	563,501	504,750
Grants and contributions not restricted to specific programs	159,511	149,746	152,676	46,807					
Unrestricted investment earnings	37,802	11,582	12,079	30,361	81,287	113,940	120,523	42,883	7,245
Miscellaneous	281,952	230,770	207,653	209,226	185,466	250,344	275,499	226,907	195,414
Contributions to permanent funds	354	381	351	468	369	270	239	217	196
Transfers	(16,819)	(18,881)	(18,829)	(21,062)	(22,783)	(5,028)	(4,110)	(3,541)	(3,608)
Total governmental activities	<u>8,093,807</u>	<u>9,071,992</u>	<u>9,615,224</u>	<u>10,038,171</u>	<u>10,742,405</u>	<u>11,580,393</u>	<u>11,756,069</u>	<u>10,645,923</u>	<u>10,693,950</u>
Business-type activities:									
Transfers	16,819	18,881	18,829	21,062	22,783	5,028	4,110	3,541	3,608
Total business-type activities	<u>16,819</u>	<u>18,881</u>	<u>18,829</u>	<u>21,062</u>	<u>22,783</u>	<u>5,028</u>	<u>4,110</u>	<u>3,541</u>	<u>3,608</u>
Total primary government general revenues and other changes in net assets	<u>\$ 8,110,626</u>	<u>\$ 9,090,873</u>	<u>\$ 9,634,053</u>	<u>\$ 10,059,233</u>	<u>\$ 10,765,188</u>	<u>\$ 11,585,421</u>	<u>\$ 11,760,179</u>	<u>\$ 10,649,464</u>	<u>\$ 10,697,558</u>
Changes in Net Assets									
Governmental activities	\$ 127,597	\$ 852,946	\$ 1,170,553	\$ 1,015,261	\$ 1,866,311	\$ 1,664,382	\$ 455,919	\$ (218,384)	\$ 532,301
Business-type activities	(48,624)	(38,263)	127,287	151,274	103,656	47,505	25,228	(326,573)	43,424
Total primary government	<u>\$ 78,973</u>	<u>\$ 814,683</u>	<u>\$ 1,297,840</u>	<u>\$ 1,166,535</u>	<u>\$ 1,969,967</u>	<u>\$ 1,711,887</u>	<u>\$ 481,147</u>	<u>\$ (544,957)</u>	<u>\$ 575,725</u>

- (1) The increase in program revenues of the health and social services function between fiscal years 2003 and 2004 resulted from the reclassification of certain revenues from operating grants and contributions to charges for services. The effect of the decrease in operating grants and contributions was neutralized by an increase in federal funding to the TennCare program to compensate for rising healthcare costs.
- (2) The increase in expenses of the recreation and resources development function between fiscal years 2007 and 2008 resulted from the acquisition of conservation easements for wilderness protection.
- (3) The increase in expenses of the Employment Security program between fiscal years 2008 and 2009 and between 2009 and 2010 was due to a significant increase in the demand for unemployment benefits.
- (4) The significant increase in Operating grants and contributions revenue for both Governmental and Business-type activities between fiscal years 2008 and 2009 and between 2009 and 2010 was due to the increase in federal funds received as a result of the American Recovery and Reinvestment Act.

STATE OF TENNESSEE
FINANCIAL TRENDS - NET ASSETS BY COMPONENT
LAST NINE FISCAL YEARS
(accrual basis of accounting, expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Governmental activities									
Invested in capital assets, net of related debt	\$ 17,457,541	\$ 18,119,735	\$ 18,691,308	\$ 19,406,978	\$ 20,204,007	\$ 21,078,481	\$ 21,796,151	\$ 22,575,852	\$ 23,360,007
Restricted	665,673	703,010	843,889	580,840	725,209	792,542	864,270	965,292	924,902
Unrestricted (1), (2), (3)	69,056	288,523	743,586	1,306,226	2,204,315	2,964,957	2,631,478	1,495,656	1,284,192
Total governmental activities net assets	<u>18,192,270</u>	<u>19,111,268</u>	<u>20,278,783</u>	<u>21,294,044</u>	<u>23,133,531</u>	<u>24,835,980</u>	<u>25,291,899</u>	<u>25,036,800</u>	<u>25,569,101</u>
Business-type activities									
Invested in capital assets, net of related debt							51		
Restricted	1,239,236	1,181,636	1,288,353	1,389,261	1,459,045	1,472,523	1,479,166	1,160,425	1,235,085
Unrestricted	31,655	50,992	71,562	121,928	155,800	171,183	189,717	181,936	150,700
Total business-type activities net assets	<u>1,270,891</u>	<u>1,232,628</u>	<u>1,359,915</u>	<u>1,511,189</u>	<u>1,614,845</u>	<u>1,643,706</u>	<u>1,668,934</u>	<u>1,342,361</u>	<u>1,385,785</u>
Primary Government									
Invested in capital assets, net of related debt	17,457,541	18,119,735	18,691,308	19,406,978	20,204,007	21,078,481	21,796,202	22,575,852	23,360,007
Restricted	1,904,909	1,884,646	2,132,242	1,970,101	2,184,254	2,265,065	2,343,436	2,125,717	2,159,987
Unrestricted	100,711	339,515	815,148	1,428,154	2,360,115	3,136,140	2,821,195	1,677,592	1,434,892
Total primary government net assets	<u>\$ 19,463,161</u>	<u>\$ 20,343,896</u>	<u>\$ 21,638,698</u>	<u>\$ 22,805,233</u>	<u>\$ 24,748,376</u>	<u>\$ 26,479,686</u>	<u>\$ 26,960,833</u>	<u>\$ 26,379,161</u>	<u>\$ 26,954,886</u>

- (1) The increase in unrestricted net assets between fiscal years 2004 and 2005 is attributable, in part, to the implementation of GASB Statement 46 which caused a reduction in restricted net assets. In addition, because the state lottery was operational for only six months during fiscal year 2004, fewer funds were restricted for lottery scholarships when compared fiscal year 2005.
- (2) The increase in unrestricted net assets between fiscal years 2005 and 2006 and between 2006 and 2007 is attributable, in part, to the overall increase in the net assets resulting from governmental activities, specifically those activities associated with the General fund, which had a \$698 million and \$662 million increase in fund balance for 2006 and 2007, respectively.
- (3) The decrease in unrestricted net assets between fiscal years 2008 and 2009 was mostly attributable to the decrease in cash and cash equivalents caused by a reduction in revenue collections from business and sales taxes and interest on investments.

STATE OF TENNESSEE
FINANCIAL TRENDS - FUND BALANCES
GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting, expressed in thousands)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund										
Reserved	\$ 534,116	\$ 435,600	\$ 486,319	\$ 693,371	\$ 594,405	\$ 960,229	\$ 1,143,163	\$ 1,112,212	\$ 1,102,819	\$ 1,174,135
Unreserved	461,964	195,941	202,603	658,055	737,779	1,070,124	1,549,399	1,097,767	633,699	692,857
Total general fund (1), (2)	<u>\$ 996,080</u>	<u>\$ 631,541</u>	<u>\$ 688,922</u>	<u>\$ 1,351,426</u>	<u>\$ 1,332,184</u>	<u>\$ 2,030,353</u>	<u>\$ 2,692,562</u>	<u>\$ 2,209,979</u>	<u>\$ 1,736,518</u>	<u>\$ 1,866,992</u>
All Other Governmental Funds										
Reserved	\$ 659,095	\$ 876,919	\$ 922,258	\$ 1,061,453	\$ 1,307,412	\$ 1,166,534	\$ 1,079,672	\$ 1,179,711	\$ 1,033,436	\$ 1,027,923
Unreserved, reported in:										
Special revenue funds	103	50	50	50	50	345,143	569,041	461,832	600,805	531,788
Debt service fund	3,407					5,377	5,398	7,131	3,997	6,715
Capital projects fund	131,833					49,749	123,205	489,173	401,019	344,675
Total all other governmental funds	<u>\$ 794,435</u>	<u>\$ 876,969</u>	<u>\$ 922,308</u>	<u>\$ 1,061,503</u>	<u>\$ 1,307,462</u>	<u>\$ 1,566,803</u>	<u>\$ 1,777,316</u>	<u>\$ 2,137,847</u>	<u>\$ 2,039,257</u>	<u>\$ 1,911,101</u>

(1) The increase in the fund balance of the general fund between fiscal years 2003 and 2004 resulted from higher revenue collections.

A favorable economy caused increases in sales, excise, franchise, business, and income tax collections. However, expenditures in fiscal year 2004 did not increase at the same rate. The result was an increase of \$625 million in the General Fund total fund balance.

A majority of the increase in the *reserved* component was from the Reserve for Uncumbered Balance and the Reserve for Federal Tax Relief. The largest part of the increase in the *unreserved* component resulted in the Reserve for Supplemental Appropriations and the Reserve for Future Requirements.

(2) The increase in the fund balance of the general fund between fiscal years 2005 and 2006 and between 2006 and 2007 resulted from higher revenue collections. A favorable economy caused increases in sales, excise, and franchise tax collections.

STATE OF TENNESSEE
FINANCIAL TRENDS - CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting, expressed in thousands)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
FOR THE FISCAL YEAR ENDED JUNE 30,										
Revenues										
Taxes	\$ 8,010,722	\$ 7,631,768	\$ 8,698,984	\$ 9,272,267	\$ 9,819,155	\$ 10,488,650	\$ 11,249,773	\$ 11,333,507	\$ 10,376,455	\$ 10,445,363
Licenses, fines, fees, and permits	325,974	547,594	567,243	590,627	624,694	637,522	660,888	672,486	677,766	675,009
Interest on investments	92,127	36,618	28,429	34,102	46,222	102,075	178,080	127,152	23,964	36,443
Federal (3)	6,184,126	6,694,648	7,646,384	8,417,534	8,988,687	8,568,732	8,763,302	8,807,036	10,013,033	12,471,642
Departmental services	1,748,165	1,607,251	1,716,159	2,071,252	2,360,891	2,238,968	2,339,870	2,339,870	2,352,198	2,195,707
Other	356,029	444,450	384,536	488,769	502,074	491,064	537,816	570,634	535,534	519,936
Total revenues	16,717,143	16,962,329	18,951,735	20,874,551	22,341,723	22,527,011	23,623,309	23,850,685	23,978,950	26,344,100
Expenditures										
Current:										
General government	349,278	358,523	392,747	400,069	425,243	530,637	555,545	617,056	581,364	558,013
Education (1)	3,059,538	4,218,637	4,432,071	4,630,294	5,100,147	5,353,167	5,775,363	6,318,858	6,335,343	6,682,173
Health and social services	8,641,777	9,250,026	10,342,682	11,308,871	12,518,297	11,273,685	11,662,476	12,297,128	12,891,353	14,017,403
Law, justice, and public safety	897,805	914,307	970,042	1,042,510	1,109,819	1,216,756	1,275,402	1,294,717	1,294,717	1,302,252
Recreation and resources development	419,423	446,137	442,915	479,243	491,681	544,744	525,885	707,866	599,885	555,717
Regulation of business and professions	57,988	65,040	71,109	88,580	119,620	92,888	134,955	129,688	131,614	139,200
Transportation	1,269,773	1,311,654	1,357,941	1,318,913	1,411,906	1,477,504	1,541,850	1,459,231	1,593,643	1,815,822
Intergovernmental revenue sharing	681,151	686,515	641,271	647,654	683,925	738,349	815,832	842,096	810,063	874,094
Debt service:	122,221	68,304	78,108	80,243	89,474	86,532	81,790	79,107	83,960	101,804
Principal		54,121	47,964	49,956	43,455	49,319	50,363	51,872	52,110	64,344
Interest		1,282	650	1,945	2,159	1,082	1,173	980	4,162	4,837
Debt issuance costs										
Capital outlay	55,679	145,590	132,949	128,167	119,730	253,229	343,712	359,118	472,451	485,957
Total expenditures	15,554,633	17,520,136	18,910,449	20,176,445	22,115,456	21,617,892	22,764,346	24,141,752	24,850,865	26,601,596
Revenues over (under) expenditures	1,162,510	(557,807)	41,286	698,106	226,267	909,119	858,963	(291,067)	(871,915)	(257,496)
Other Financing Sources (Uses)										
Capital lease										
Bonds and commercial paper issued	223,408	168,017	95,195	206,933	52,979	228,409	196,290	340,021	601,664	415,033
Notes/Commercial paper redeemed	(79,160)	(152,091)	(3,900)	(155,796)		(109,908)	(103,498)	(129,333)	(273,443)	(155,973)
Insurance claim recoveries						1,670	4,013	2,561	251	
Premium on bond sale	586	5,149		6,485		2,485	2,049	2,760	30,147	26,358
Refunding bonds issued					355,053				91,536	43,985
Refunding bond premium					(386,261)				10,670	
Refunding payment to escrow									(101,707)	(43,985)
Other										21,146
Transfers in (2)	567,901	766,097	679,743	661,064	812,886	733,813	898,244	1,526,581	1,810,209	1,332,847
Transfers out (2)	(1,748,989)	(787,813)	(708,252)	(691,729)	(866,136)	(808,078)	(983,418)	(1,573,375)	(1,869,463)	(1,379,597)
Total other financing sources (uses)	(1,036,254)	(641)	62,786	26,957	450	48,391	13,680	169,015	299,864	259,814
Net Change in Fund Balances	\$ 126,256	\$ (558,448)	\$ 104,072	\$ 725,063	\$ 226,717	\$ 957,510	\$ 872,643	\$ (122,052)	\$ (572,051)	\$ 2,318
Debt Service as a Percentage of Noncapital Expenditures										
		0.6720%	0.6937%	0.6691%	0.6241%	0.6566%	0.6055%	0.5620%	0.5659%	0.6441%

(1) The increase in expenditures in the Education function between 2001 and 2002 resulted primarily from implementing GASB Statement 34. Amounts reported as a transfer to component units in fiscal year 2001 were recorded as expenditures in fiscal year 2002.

(2) The increase in transfers in and transfers out between 2007 and 2008 was due to transfers from the General fund to the Education Trust fund for an increase in appropriation requirements and to the Capital Projects fund for capital outlay appropriations.

(3) The increase in federal revenue between 2009 and 2010 is the result of funding provided by the American Recovery and Reinvestment Act.

STATE OF TENNESSEE
REVENUE CAPACITY - TAXABLE SALES BY CLASSIFICATION
LAST TEN CALENDAR YEARS
(expressed in millions)

	FOR THE CALENDAR YEAR ENDED DECEMBER 31,									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Auto dealers	\$ 8,378	\$ 8,648	\$ 8,836	\$ 9,430	\$ 9,440	\$ 9,425	\$ 9,387	\$ 9,503	\$ 7,939	\$ 6,633
Purchases from manufacturers	4,201	3,956	3,652	3,933	4,150	4,805	4,680	4,745	4,497	3,513
Miscellaneous durable goods	13,013	12,359	12,272	12,893	14,183	15,846	17,211	17,442	16,346	13,702
Eating and drinking places	6,205	6,446	6,564	6,914	7,456	7,961	8,465	8,882	8,984	8,837
Food stores	8,131	8,095	7,983	7,851	7,937	8,195	8,419	8,983	9,165	9,353
Liquor stores	385	397	408	433	458	495	548	594	636	658
Hotels and motels	1,830	1,785	1,777	1,821	1,881	2,043	2,219	2,354	2,313	2,031
Other retail and service	21,493	21,400	21,996	23,174	24,240	25,764	27,087	28,485	28,710	27,266
Miscellaneous nondurable goods	6,335	6,310	6,262	6,282	6,564	7,067	7,333	7,803	7,832	7,414
Transportation	4,684	5,136	5,723	6,018	6,411	6,685	7,354	7,691	7,913	7,729
Total taxable sales	\$ 74,655	\$ 74,532	\$ 75,473	\$ 78,740	\$ 82,720	\$ 88,286	\$ 92,703	\$ 96,482	\$ 94,335	\$ 87,136

Source: University of Tennessee Economic Report to the Governor

STATE OF TENNESSEE
REVENUE CAPACITY - SALES AND USE TAX RATES
LAST TEN FISCAL YEARS
(expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Rate applied to gross proceeds derived from the retail sale or use of tangible personal property and specific services	6.00%	6.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Rates for specific items or services:										
Retail sale of food and food ingredients for human consumption (except vending machines)	N/A	N/A	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Energy fuels used by manufacturers and nurseries	N/A	N/A	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Water used by manufacturers	N/A	N/A	3.00%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Manufactured homes	N/A	N/A	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Aviation fuel	N/A	N/A	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Common carriers	N/A	N/A	3.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Interstate telecommunication services sold to businesses	N/A	N/A	3.00%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Aircraft exceeding \$100,000 sales price	N/A	N/A	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
Cable and wireless TV (between \$15 and \$27.50) and satellite services	N/A	N/A	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Additional tax added to the general rate for single article sales of personal property (\$1,601 to \$3,200)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: State of Tennessee Budget, Department of Finance and Administration, Division of Budget

Note: N/A - Not applicable because this item was not specifically identified with a rate separate from the general rate.

STATE OF TENNESSEE
REVENUE CAPACITY - SALES AND USE TAX COLLECTIONS BY TAXPAYER CLASSIFICATION
LAST TEN FISCAL YEARS
(expressed in thousands)

		FOR THE FISCAL YEAR ENDED JUNE 30,									
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Retail:	\$	224,268	\$ 233,385	\$ 271,969	\$ 328,562	\$ 363,952	\$ 405,812	\$ 423,160	\$ 391,271	\$ 333,737	\$ 311,332
	Building materials	543,088	575,230	654,071	712,426	735,074	767,584	820,549	829,576	810,503	799,387
	General merchandise	469,960	465,911	478,857	485,947	494,466	508,497	526,981	520,280	520,280	510,104
	Food stores	622,544	645,670	751,167	820,454	815,985	817,689	856,109	835,035	672,112	690,797
	Auto dealers and service stations	137,616	137,851	160,688	177,017	185,683	194,946	200,131	200,745	191,132	191,110
	Apparel and accessory stores	169,378	162,401	189,506	209,525	222,089	238,475	246,569	244,312	215,352	207,398
	Furniture and home furnishings	362,716	379,566	435,505	486,680	518,689	547,547	585,490	605,544	596,893	598,562
	Eating and drinking places	372,632	378,101	443,114	491,443	508,694	550,340	580,936	597,649	568,197	560,527
	Miscellaneous retail stores	2,902,202	2,978,115	3,384,877	3,712,054	3,844,632	4,030,890	4,239,925	4,234,109	3,908,206	3,869,217
	Total retail										
Services:	\$	104,794	102,036	118,247	124,795	131,675	142,333	154,081	160,909	146,253	137,973
	Hotels and lodging places	39,316	41,982	47,623	51,845	49,818	49,375	51,099	51,151	46,564	46,777
	Personal services	184,803	167,634	189,019	199,677	218,799	234,810	245,387	254,506	239,143	224,044
	Business services	140,215	137,546	153,418	163,687	159,935	163,710	174,680	173,481	157,972	153,781
	Auto repair, services, and parking	20,282	19,809	21,914	23,606	24,873	27,100	28,387	28,441	25,321	22,801
	Miscellaneous repair services	16,105	17,320	20,868	23,244	22,851	22,282	22,178	21,498	21,512	19,803
	Motion pictures	39,660	41,477	45,116	49,106	50,854	54,629	59,578	59,636	58,225	57,636
	Amusement services	9,459	8,951	9,137	10,818	11,139	11,710	13,123	13,676	14,228	14,305
	Health services	20,833	19,002	23,503	26,747	31,025	34,282	34,400	37,740	43,434	36,802
	Other services	575,467	555,757	628,845	673,525	700,969	740,231	782,913	801,038	752,652	713,922
Non-retail, non-services:	\$	4,797	4,774	5,133	5,812	5,968	6,920	7,261	7,451	7,381	7,312
	Agriculture, forestry, fishing	4,981	4,341	4,126	5,286	5,073	5,635	6,302	7,117	6,126	5,933
	Mining	40,689	41,851	38,168	42,275	42,640	48,540	54,075	59,119	52,415	44,038
	Construction	232,558	209,366	236,163	261,260	289,494	312,570	305,538	299,223	256,995	225,530
	Manufacturing	24,678	5,991	22,856	26,895	36,239	42,825	46,688	53,866	69,930	34,556
	Transportation	257,754	308,184	361,677	398,105	388,544	442,837	457,116	475,675	477,281	443,576
	Communications	133,325	128,072	149,710	163,358	174,794	194,574	203,789	215,552	236,692	215,020
	Electric, gas, and sanitary services	292,179	243,826	280,882	321,014	349,023	418,607	451,777	450,898	393,100	361,217
	Wholesale trade	14,167	11,998	12,376	11,396	11,037	12,899	17,830	17,908	12,981	17,766
	Finance, insurance, real estate	1,005,128	958,403	1,111,091	1,235,401	1,299,812	1,485,407	1,550,396	1,586,809	1,512,901	1,354,948
Total non-retail, non-services	\$	76,608	82,391	94,705	108,781	112,753	114,767	126,081	125,355	101,136	110,328
	County Clerk	N/A	N/A	104,786	4,647	5,313	7,545	5,071	4,641	5,250	4,322
	Consumer Use Tax										
	Grand Total	\$ 4,559,405	\$ 4,574,666	\$ 5,324,304	\$ 5,734,408	\$ 5,963,479	\$ 6,378,840	\$ 6,704,386	\$ 6,751,952	\$ 6,280,145	\$ 6,052,737

Source: Revenue Collections Reports, Tennessee Department of Revenue

Note: N/A means not available.

STATE OF TENNESSEE
DEBT CAPACITY - RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(expressed in thousands; except for per capita)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Governmental activities debt:										
General obligation bonds	\$ 1,049,456	\$ 1,134,881	\$ 1,047,531	\$ 1,141,026	\$ 1,044,830	\$ 1,096,765	\$ 1,115,488	\$ 1,175,403	\$ 1,538,942	\$ 1,688,820
General obligation bond anticipation notes										
General obligation commercial paper	250,000	110,700	201,800	82,775	168,575	144,625	130,824	240,626	176,308	241,390
Capital leases	562	483	788	1,008	1,229	3,619	3,943	11,743	10,810	16,301
Total governmental activities debt	1,300,018	1,246,064	1,250,119	1,224,809	1,214,634	1,245,009	1,250,255	1,427,772	1,726,060	1,946,511
Business-type activities debt:										
General obligation bonds	17,213	13,924	11,070	8,071	5,232	3,378	2,534	1,655	-	-
Total business-type activities debt	17,213	13,924	11,070	8,071	5,232	3,378	2,534	1,655	-	-
Total primary government debt	1,317,231	1,259,988	1,261,189	1,232,880	1,219,866	1,248,387	1,252,789	1,429,427	1,726,060	1,946,511
Debt Ratios										
Personal income	\$ 154,416,000	\$ 159,173,000	\$ 165,402,000	\$ 174,741,000	\$ 184,637,000	\$ 195,085,000	\$ 205,112,000	213,124,000	217,884,000	N/A
Ratio of total debt to personal income	0.85%	0.79%	0.76%	0.71%	0.66%	0.64%	0.61%	0.67%	0.79%	
Population	5,747	5,790	5,842	5,893	5,963	6,039	6,157	6,215	6,296	N/A
Net general bonded debt per capita	229	218	216	209	205	206	203	228	270	
General Bonded Debt:										
General obligation bonds	\$ 1,066,669	\$ 1,148,805	\$ 1,058,601	\$ 1,149,097	\$ 1,050,062	\$ 1,100,143	\$ 1,118,022	\$ 1,177,058	\$ 1,538,942	\$ 1,688,820
General obligation bond anticipation notes										
General obligation commercial paper	250,000	110,700	201,800	82,775	168,575	144,625	130,824	240,626	176,308	241,390
Assets restricted for debt principal									(14,509)	
Total net bonded debt	1,316,669	1,259,505	1,260,401	1,231,872	1,218,637	1,244,768	1,248,846	1,417,684	1,700,741	1,930,210
Debt Ratios										
Ratio of net bonded debt to total of pledged revenues	60.91%	61.03%	65.48%	70.45%	73.21%	75.68%	80.92%	71.22%	46.38%	38.01%

Source: State of Tennessee Comprehensive Annual Financial Report and the University of Tennessee Economic Report to the Governor
Notes: (1) N/A - not available because the source did not provide the data.
(2) See Schedule 10 for personal income and population data.
(3) Details of the state's debt can be found in Note 5H in the basic financial statements.

STATE OF TENNESSEE
DEBT CAPACITY - LEGAL DEBT SERVICE MARGIN INFORMATION
LAST TEN FISCAL YEARS
(expressed in thousands)

	Collections for Fiscal Year 2010		Fiscal Year 2010 Pledged Amount	Pledged amount		
	Portion Pledged	All Governmental Fund Types				
Calculation of 2010 pledged revenues:						
Gasoline tax	29.3%	\$ 437,246	\$ 128,113	Legal debt service limit (pledged amount/150%)		\$ 733,612
Petroleum products fee	100%	62,442	62,442	Less: 2010 debt service required on all general long-term	489,075	
Motor vehicle registration fee	50%	41,864	20,932	debt, including State Loan Program and Facilities Revolving		
Franchise tax	100%	522,125	522,125	Fund general obligations bonds	186,684	
		<u>\$ 1,063,677</u>	<u>\$ 733,612</u>	Legal debt service margin	<u>\$ 302,391</u>	

FOR THE FISCAL YEAR ENDED JUNE 30,										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt limit	\$ 534,682	\$ 512,464	\$ 550,211	\$ 578,609	\$ 594,778	\$ 628,010	\$ 673,748	\$ 673,070	\$ 525,905	\$ 489,075
Total net debt service applicable to limit	131,593	142,075	148,079	143,702	155,215	148,033	145,975	145,721	154,803	186,684
Legal debt service margin	<u>\$ 403,089</u>	<u>\$ 370,389</u>	<u>\$ 402,132</u>	<u>\$ 434,907</u>	<u>\$ 439,563</u>	<u>\$ 479,977</u>	<u>\$ 527,773</u>	<u>\$ 527,349</u>	<u>\$ 371,102</u>	<u>\$ 302,391</u>
Legal debt service margin as a percentage of the debt limit	75.39%	72.28%	73.09%	75.16%	73.90%	76.43%	78.33%	78.35%	70.56%	61.83%

STATE OF TENNESSEE
DEMOGRAPHIC AND ECONOMIC INFORMATION
FOR THE LAST TEN CALENDAR YEARS
(expressed in thousands; except per capita)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Population	5,689	5,747	5,790	5,842	5,893	5,963	6,039	6,157	6,215	6,296
Total personal income	\$ 148,834,000	\$ 154,416,000	\$ 159,173,000	\$ 165,622,000	\$ 174,727,000	\$ 184,567,000	\$ 195,656,000	\$ 205,112,000	\$ 213,124,000	\$ 217,884,000
Per capita personal income	\$ 26,168	\$ 26,842	\$ 27,434	\$ 28,377	\$ 29,761	\$ 31,127	\$ 32,474	\$ 33,746	\$ 34,995	\$ 35,065
Unemployment rate	4.0%	4.6%	5.2%	5.5%	5.4%	5.6%	4.5%	5.3%	7.9%	10.9%

Source: Population from www.census.gov
All other from the University of Tennessee Economic Report to the Governor
Note: N/A means not available.

STATE OF TENNESSEE
DEMOGRAPHIC AND ECONOMIC INFORMATION - EMPLOYMENT BY INDUSTRY
PRIOR YEAR AND NINE YEARS AGO

	2009			2000		
Industry	Number of Employees	Rank	Percentage of Total Nonagricultural Wage and Salary Employment	Number of Employees	Rank	Percentage of Total Nonagricultural Wage and Salary Employment
Trade, Transportation, and Utilities	573,500	1	21.52%	592,900	1	21.74%
Government	431,400	2	16.19%	399,000	3	14.63%
Education and Health Services	366,600	3	13.76%	281,600	5	10.32%
Manufacturing	322,400	4	12.10%	493,100	2	18.08%
Professional and Business Services	307,200	5	11.53%	304,000	4	11.14%
Leisure and Hospitality	270,700	6	10.16%	235,700	6	8.64%
Financial Activities	137,800	7	5.17%	140,600	7	5.15%
Natural Resources, Mining, and Construction	107,300	8	4.03%	130,800	8	4.80%
Other Services	100,800	9	3.78%	94,700	9	3.47%
Information	46,800	10	1.76%	55,300	10	2.03%
Total	2,664,500		100.00%	2,727,700		100.00%
Total State Employment	2,703,010			2,756,550		

Source: An Economic Report to the Governor of the State of Tennessee January 2010
and the Tennessee Department of Labor and Workforce Development

Note: TCA 50-7-701 states, "Information thus obtained pursuant to the administration hereof shall be held confidential and shall not be published or be open to public inspection in any manner revealing the individual's or the employing unit's identity."
This TCA prohibits the release of principal employer information from the Tennessee Department of Labor and Workforce Development. The above schedule is being presented as an alternative to the principal employer schedule.

STATE OF TENNESSEE
OPERATING INFORMATION - FULL TIME EMPLOYEES BY FUNCTION
FOR THE LAST TEN FISCAL YEARS

Function	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government	4,150	4,114	4,163	4,254	4,394	4,671	4,964	5,040	4,947	4,866
Education	979	955	966	1,014	1,028	1,025	1,070	1,206	1,157	1,193
Health and social services (1)	18,147	18,852	19,144	19,255	20,431	21,246	21,208	20,990	19,704	19,241
Law, justice and public safety	10,406	10,681	10,569	10,691	10,922	10,987	10,843	11,004	10,530	10,629
Recreation and resources development	3,718	3,586	3,689	3,762	3,757	3,846	3,885	3,901	3,698	3,640
Regulation of business and professions	624	646	668	680	718	738	776	754	708	717
Transportation	4,620	4,559	4,528	4,460	4,454	4,448	4,380	4,294	4,167	4,326
Total	42,644	43,393	43,727	44,116	45,704	46,961	47,126	47,189	44,911	44,612

Source: Department of Personnel

(1) In 2005, in the Department of Human Services, a TennCare appeals unit, and three new family assistance service centers were established.

STATE OF TENNESSEE
OPERATING INFORMATION - CAPITAL ASSET STATISTICS BY FUNCTION
FOR THE LAST TEN FISCAL YEARS

Function	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government		7,587	7,701	7,785	6,689	7,067	7,276	7,392	7,562	7,536
Motor pool vehicles	62	62	61	61	108	107	107	107	107	107
Buildings	3,282	3,233	3,581	3,861	3,634	3,637	3,586	3,528	3,166	3,888
Machinery and equipment										
Education		5	5	5	5	5	5	5	5	5
Number of residential schools	210	167	223	228	244	219	209	240	242	260
Machinery and equipment										
Health and social services		417	391	388	342	340	339	329	320	320
Buildings	2,014	1,916	1,973	1,964	2,031	2,142	2,303	2,443	2,462	2,856
Machinery and equipment										
Law, justice and public safety		19	19	19	19	19	19	19	19	19
Correctional facilities	89	90	90	86	86	86	86	83	83	83
Armories	1,728	1,739	1,882	2,009	2,352	2,532	2,586	3,103	3,156	3,732
Machinery and equipment										
Recreation and resources development		156,643	158,252	158,723	164,251	164,399	164,537	165,486	173,878	163,032
Acceage of state parks	1,991	1,884	2,093	2,185	2,295	2,476	2,543	2,729	2,736	2,949
Machinery and equipment										
Regulation of business and professions		72	68	82	93	104	138	147	140	148
Machinery and equipment										
Transportation		14,111	14,107	14,289	14,151	14,163	13,835	13,887	13,882	13,871
State highways (in miles)	19,453	19,453	19,493	19,621	19,646	19,432	19,515	19,536	19,536	19,595
Bridges, state and local highways	122	120	120	120	122	122	122	122	122	122
Facilities	631	629	671	682	710	713	717	708	708	708
Buildings										

STATE OF TENNESSEE
OPERATING INFORMATION - OPERATING INDICATORS
FOR THE LAST TEN FISCAL YEARS

Function	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government										
Tax returns processed (1)	2,148,643	2,125,072	1,999,458	2,225,891	2,013,809	2,398,453	2,502,248	2,802,574	2,802,137	3,005,798
New corporate charters registered	12,162	11,716	11,563	11,826	12,103	11,807	11,726	10,745	11,073	11,724
Investment return on total portfolio	5.94%	2.67%	1.64%	1.11%	2.12%	4.11%	5.30%	2.00%	0.40%	0.25%
Residential and commercial property reappraisals completed	1,435,746	475,539	256,916	265,373	1,441,168	554,798	336,050	255,250	511,050	677,720
Education										
Number of public schools (K-12)	1,623	1,646	1,659	1,677	1,693	1,699	1,714	1,718	1,736	1,736
Enrollment of public schools (K-12)	984,015	958,496	973,170	973,626	976,574	991,489	925,898	929,543	930,525	933,703
Number of high school graduates from public schools	44,873	44,622	48,341	50,203	51,436	53,960	54,191	57,486	60,371	62,526
Health and social services										
TennCare enrollees	1,445,900	1,428,600	1,287,600	1,336,700	1,213,800	1,187,500	1,191,233	1,208,871	1,233,208	1,195,611
Food stamp recipients	504,443	578,144	692,300	791,695	833,687	870,304	861,979	902,500	1,094,500	1,044,900
Percentage of population (4)	8.78%	9.99%	11.85%	13.43%	13.98%	14.41%	14.00%	14.52%	17.38%	17.38%
Temporary assistance recipients	153,845	163,840	68,300	73,158	72,676	70,108	64,684	60,000	60,000	58,000
Percentage of population (4)	2.68%	2.83%	1.17%	1.24%	1.22%	1.16%	1.05%	0.97%	0.95%	0.95%
Children in state custody (2)	10,819	10,259	10,345	10,869	10,467	9,700	9,048	8,149	7,202	7,336
Percentage of population (4)	0.19%	0.18%	0.18%	0.18%	0.18%	0.16%	0.15%	0.13%	0.11%	0.11%
Mental health institutes average daily census	985	941	958	960	888	845	808	780	688	575
Law, justice and public safety										
Correctional institutions average daily census	16,920	17,372	18,170	19,117	19,141	19,119	26,573	26,998	27,325	27,164
Department of Safety citations issued	415,928	415,030	388,356	423,305	453,630	472,465	403,363	380,586	358,104	347,571
Drivers licenses issued	1,402,735	1,281,106	1,271,141	1,334,417	1,351,241	1,711,655	1,632,164	1,600,000	1,625,939	1,486,722
Recreation and resources development										
Hunting/fishing licenses and boats registered	735,941	722,949	718,307	723,305	733,554	690,426 (est)	718,397 (est)	690,313	707,000	689,935
Wetland acres acquired	10,873	4,798	74,831	6,369	782	3,308 (est)	891 (est)	3,602	2,327	79
Number of visitors to state parks	28,824,110	28,821,110	26,878,838	26,702,434	27,604,112	28,859,399	29,408,099	30,672,700	28,410,067	28,404,662
Air pollution monitoring sites	104	99	92	91	86	87	86	78	89	93
Regulation of business and professions										
Fire safety inspections	20,087	12,574		41,402		18,418	34,976	39,518	34,241	37,920
Consumer affairs written complaints	5,017	4,660		4,747		5,528	5,420	5,797	5,481	6,240
Transportation										
Lane miles resurfaced (3)	2,748	3,483	2,194	2,238	2,188	1,632	2,408	1,968	2,893	2,261
HELP program services provided	85,267	150,086	123,809	137,615	148,805	154,362	128,006	130,062	108,460	112,438

Source: Tennessee fact book, various state agencies

Notes:

- (1) Tennessee does not tax employment income.
- (2) Children who are abused/dependent, neglected, delinquent, and unruly.
- (3) Amounts are reported on a calendar year basis; the 2009 amount is through October 2009.
- (4) Population figures used in calculating percentages are from schedule 10.
- (5) Blank lines indicate that data is unavailable.

STATE OF TENNESSEE
SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE LAST TEN FISCAL YEARS

(expressed in thousands)

University of Tennessee						University of Memphis					
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)		Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)	
2001	\$ 401,918	\$ 408,671	21	\$ 16,872		2001	\$ 114,031	\$ 97,499	-	\$ 2,353	
2002	438,956	406,146	21	18,628		2002	120,196	99,786	-	3,777	
2003	413,632	409,612	-	24,804		2003	127,638	102,139	-	6,334	
2004	406,033	406,033	75	24,508		2004	140,957	100,602	-	6,291	
2005	448,955	430,412	66	25,317		2005	151,536	106,393	-	5,609	
2006	484,786	440,014	56	23,896		2006	166,652	108,395	-	4,993	
2007	532,582	471,730	45	26,652		2007	177,082	116,006	-	6,013	
2008	565,963	510,261	35	33,177		2008	188,462	123,719	-	6,280	
2009	599,973	476,333	35	43,577		2009	166,167	114,524	-	8,914	
2010	648,298	493,304	12	43,998		2010	178,343	105,354	-	8,914	
Austin Peay State University						Middle Tennessee State University					
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)		Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)	
2001	\$ 31,087	\$ 28,051	48	\$ 649		2001	\$ 86,328	\$ 76,159	-	\$ 4,886	
2002	38,957	30,484	48	649		2002	98,031	77,990	-	5,472	
2003	42,577	31,100	48	1,516		2003	108,974	82,144	-	6,537	
2004	40,120	30,712	48	1,515		2004	126,161	81,057	-	6,540	
2005	44,332	32,216	-	2,242		2005	136,192	85,305	-	6,937	
2006	50,818	32,684	-	2,104		2006	149,759	86,971	-	6,455	
2007	56,119	34,977	-	2,253		2007	158,641	94,005	-	7,875	
2008	61,033	37,180	-	2,581		2008	168,872	100,859	-	8,011	
2009	62,358	33,427	-	3,512		2009	182,576	92,908	-	12,962	
2010	49,277	30,729	-	3,512		2010	145,229	82,875	-	12,962	
East Tennessee State University						Tennessee State University					
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)		Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)	
2001	\$ 66,727	\$ 75,937	261	\$ 1,954		2001	\$ 54,979	\$ 34,843	66	\$ 2,056	
2002	72,774	77,965	261	1,916		2002	45,119	35,067	-	2,193	
2003	76,414	79,735	319	2,608		2003	47,326	34,988	-	3,137	
2004	85,854	79,247	315	2,609		2004	54,375	34,569	-	3,136	
2005	92,599	83,221	312	2,824		2005	57,504	37,110	-	3,001	
2006	100,454	86,173	2,242	2,221		2006	59,847	37,864	-	2,893	
2007	107,798	91,709	2,070	2,895		2007	60,537	39,913	-	2,911	
2008	121,820	98,619	1,889	5,172		2008	61,058	46,407	-	3,506	
2009	128,037	92,402	1,699	9,489		2009	77,569	38,085	-	4,041	
2010	126,146	85,811	1,399	9,502		2010	61,812	35,525	-	4,041	

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STATE OF TENNESSEE
SCHEDULE OF FEES, CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE LAST TEN FISCAL YEARS

(expressed in thousands)

Tennessee Technological University						
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)		
2001	\$ 37,065	\$ 39,933	-	844		
2002	41,311	40,992	-	639		
2003	45,293	40,790	-	415		
2004	47,194	40,165	-	897		
2005	52,138	42,742	-	1,168		
2006	56,568	43,370	-	1,042		
2007	61,679	46,012	-	1,242		
2008	70,801	48,812	-	1,273		
2009	76,045	45,267	-	1,786		
2010	81,430	40,932	-	1,786		
Dyersburg State Community College						
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)		
2001	\$ 3,127	\$ 5,809	-			
2002	3,762	5,979	-			
2003	4,010	6,108	-			
2004	5,219	6,035	-			
2005	5,490	6,386	-			
2006	5,451	6,490	-			
2007	6,032	7,118	-			
2008	6,141	7,612	-			
2009	6,945	7,276	-			
2010	4,284	7,758	-			
Jackson State Community College						
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)		
2001	\$ 5,468	\$ 10,210	-			
2002	6,773	10,477	-			
2003	7,173	10,768	-			
2004	8,290	10,610	-			
2005	8,958	11,282	-			
2006	9,280	11,480	-			
2007	10,614	12,383	-			
2008	14,329	13,147	-			
2009	17,309	13,365	-			
2010	19,203	11,611	-			
Columbia State Community College						
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)		
2001	\$ 7,294	\$ 11,016	-			
2002	13,136	11,437	-			
2003	14,921	11,540	-			
2004	10,799	11,344	-			
2005	12,133	12,839	-			
2006	13,027	12,731	-			
2007	13,829	13,710	-			
2008	13,829	13,710	-			
2009	11,481	13,537	-			
2010	9,490	12,560	-			
Chattanooga State Technical Community College						
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)		
2001	\$ 11,650	\$ 20,684	69	34		
2002	13,947	21,233	70	73		
2003	15,034	21,108	60	73		
2004	17,297	20,802	65	73		
2005	18,216	21,977	-	69		
2006	19,084	22,336	-	280		
2007	20,832	23,697	-	489		
2008	22,190	25,074	-	489		
2009	26,466	23,937	-	489		
2010	20,239	22,174	-	489		
Cleveland State Community College						
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)		
2001	\$ 3,952	\$ 9,072	-	-		
2002	4,544	9,295	-	-		
2003	4,757	9,212	-	-		
2004	5,631	9,053	-	-		
2005	5,737	9,580	-	-		
2006	6,249	9,683	-	-		
2007	6,422	10,317	-	-		
2008	7,206	10,856	-	-		
2009	8,188	10,379	-	-		
2010	5,804	9,763	-	-		

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STATE OF TENNESSEE
SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE LAST TEN FISCAL YEARS

(expressed in thousands)

Motlow State Community College							Nashville State Technical Community College						
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)			Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)		
2001	\$ 4,413	\$ 8,309	-	-			2001	\$ 8,322	\$ 12,168	-	-		
2002	5,225	8,514	-	-			2002	8,254	12,525	-	-		
2003	8,893	8,893	-	-			2003	13,519	13,099	-	-	\$	13
2004	6,369	8,747	-	-			2004	12,202	12,730	-	-		13
2005	7,022	9,343	-	-			2005	13,955	13,449	-	-		13
2006	7,678	9,434	-	-			2006	15,615	14,045	-	-		13
2007	8,661	10,290	-	-			2007	15,828	15,185	-	-		13
2008	9,780	10,951	-	-	\$	171	2008	17,392	16,370	-	-		85
2009	10,696	10,428	-	-		170	2009	19,940	15,579	-	-		70
2010	12,658	9,700	-	-		170	2010	24,984	13,578	-	-		85

Roane State Community College							Northeast State Technical Community College						
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)			Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)		
2001	\$ 7,697	\$ 15,524	-	-			2001	\$ 5,534	\$ 9,501	-	-		
2002	8,589	15,771	-	-			2002	6,599	9,737	-	-		
2003	9,532	15,779	-	-			2003	7,283	10,543	-	-		
2004	10,964	15,518	-	-			2004	8,910	10,391	-	-		
2005	11,823	16,770	-	-			2005	9,883	10,958	-	-		
2006	12,528	16,660	-	-			2006	10,505	11,147	-	-		
2007	13,510	17,892	-	-		330	2007	11,731	12,256	-	-	\$	212
2008	14,478	18,976	-	-	\$	323	2008	12,086	13,199	-	-		209
2009	15,366	18,104	-	-		323	2009	13,534	12,622	-	-		209
2010	10,029	16,997	-	-		323	2010	9,225	11,548	-	-		209

Southwest Tennessee Community College							Pelississippi State Technical Community College						
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)			Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)		
2001	\$ 18,325	\$ 34,451	-	-		146	2001	\$ 12,693	\$ 17,514	-	-		
2002	19,022	35,175	-	-	\$	146	2002	13,854	18,078	-	-		
2003	21,839	34,827	-	-		179	2003	14,393	18,247	-	-		
2004	16,472	34,191	-	-		179	2004	17,109	17,985	-	-		
2005	16,749	36,210	-	-		179	2005	17,376	18,935	-	-		
2006	18,166	36,905	-	-		169	2006	19,184	19,252	-	-		
2007	22,042	38,723	-	-		174	2007	20,801	20,657	-	-	\$	293
2008	19,577	40,131	-	-		175	2008	23,917	22,037	-	-		375
2009	20,523	38,230	-	-		389	2009	25,530	20,983	-	-		376
2010	20,712	35,892	-	-		389	2010	19,697	19,105	-	-		376

(continued on next page)

(expressed in thousands)

Volunteer State Community College					Walters State Community College				
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2001	\$	7,723	\$	15,297	2001	\$	8,281	\$	15,173
2002	9,600	15,689	-	-	2002	9,381	15,595	-	15,595
2003	10,333	15,641	-	-	2003	9,990	15,909	-	15,909
2004	12,256	15,417	-	-	2004	11,211	15,689	-	15,689
2005	13,206	16,303	-	17	2005	11,798	16,643	-	16,643
2006	14,224	16,548	-	17	2006	12,740	16,860	-	16,860
2007	17,995	14,974	-	140	2007	14,097	18,249	-	18,249
2008	15,457	19,245	-	139	2008	15,379	19,429	-	19,429
2009	18,782	18,363	-	139	2009	17,859	18,576	-	18,576
2010	21,420	17,011	-	139	2010	12,143	17,296	-	17,296

Source: Comptroller of the Treasury,
Division of Bond Finance

STATE OF TENNESSEE
STUDENT FEES AND CHARGES
FOR INSTITUTIONS WITH TENNESSEE STATE SCHOOL BOND AUTHORITY DEBT
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Schedule 16

<u>Institution</u>	<u>Debt Service Fees</u>	<u>In-State Student Tuition</u>	<u>Non-Resident Student Tuition</u>	<u>Average Board Charge</u>	<u>Average Room Charge</u>
University of Tennessee- Knoxville	\$ 204	\$ 7,382	\$ 22,720	\$ 3,174	\$ 4,080
University of Tennessee- Chattanooga	300	6,062	18,376	2,856	5,200
University of Tennessee- Martin	380	6,190	18,600	2,320	3,654
Austin Peay State University	274	6,228	19,224	2,490	5,031
East Tennessee State University	180	6,004	19,000	2,853	4,508
Middle Tennessee State University	408	6,478	19,474	3,101	4,109
Tennessee State University	178	5,854	18,850	2,891	3,131
Tennessee Technological University	58	6,036	19,032	4,538	3,142
University of Memphis	192	6,990	20,856	3,202	4,803
Chattanooga State Technical Community College		3,235	12,421		
Cleveland State Community College		3,209	12,395		
Columbia State Community College		3,201	12,387		
Dyersburg State Community College		3,211	12,397		
Jackson State Community College		3,193	12,379		
Motlow State Community College		3,213	12,399		
Nashville State Technical Community College		3,165	12,351		
Northeast State Technical Community College		3,221	12,407		
Pellissippi State Technical Community College	30	3,237	12,423		
Roane State Community College		3,221	12,407		
Southwest Tennessee Community College		3,225	12,411		
Volunteer State Community College		3,205	12,391		
Walters State Community College		3,209	12,395		

Source: Comptroller of the Treasury,
Division of Bond Finance

STATE OF TENNESSEE
PRINCIPAL AMOUNT OF DEBT OUTSTANDING BY INSTITUTION
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
JUNE 30, 2010

Schedule 17

<u>Institution</u>	<u>First Program Bonds</u>	<u>Second Program Bonds</u>	<u>Commercial Paper</u>	<u>Non-Authority Debt</u>	<u>Total Debt</u>
University of Tennessee	\$ (3)	\$ 382,032	\$ 163,126	\$ 12	\$ 545,167
Austin Peay State University		38,086	6,815		44,901
East Tennessee State University	(1)	111,017	8,890	1,399	121,305
Middle Tennessee State University	(1)	132,840	35,167		168,006
Tennessee State University		38,133	292		38,425
Tennessee Technological University		13,497	23,062		36,559
University of Memphis	(1)	71,638	34,107		105,744
Chattanooga State Technical Community College		2,299	1,049		3,348
Cleveland State Community College		384	567		951
Columbia State Community College		64	667		731
Dyersburg State Community College					
Jackson State Community College					
Motlow State Community College					
Nashville State Technical Community College		705			705
Northeast State Technical Community College		377			377
Pellissippi State Technical Community College		1,659			1,659
Roane State Community College		1,329			1,329
Southwest Tennessee Community College		2,986			2,986
Volunteer State Community College		62			62
Walters State Community College		884			884
	<u>\$ (6)</u>	<u>\$ 797,992</u>	<u>\$ 273,742</u>	<u>\$ 1,411</u>	<u>\$ 1,073,139</u>

Source: Comptroller of the Treasury,
Division of Bond Finance

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